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CIS

GROWING AGRICULTURAL TRADE PROTECTIONISM IN EUROPE

HEARING

BEFORE THE

SUBCOMMITTEE ON
ENERGY, NUCLEAR PROLIFERATION, AND
GOVERNMENT PROCESSES

OF THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

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GROWING AGRICULTURAL TRADE PROTECTIONISM IN EUROPE

THURSDAY, OCTOBER 16, 1981

U.S. SENATE,
SUBCOMMITTEE ON ENERGY, NUCLEAR
PROLIFERATION, AND GOVERNMENT PROCESSES,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Urbana, Ill.

The subcommittee met, at 8:30 a.m., at the Levis Faculty Center, Urbana, Ill., Hon. Charles H. Percy (chairman of the subcommittee) presiding.

Present: Senator Percy.

Staff present: Howard S. Marks and Lynn M. Lerish, from the Subcommittee on Energy, Nuclear Proliferation, and Government Processes; and Gary Rowe and John Caldwell from Senator Percy's Illinois staff.

OPENING STATEMENT OF SENATOR PERCY

Senator PERCY. Good morning and welcome to all of you. We are very pleased to formally open these hearings of the Senate Subcommittee on Energy, Nuclear Proliferation, and Government Processes. I certainly wish to welcome all of our witnesses and the people who came from all over Illinois, and also to express appreciation to Alan J. Dixon. He is represented by Scott Shearer. Is Scott here this morning yet? Yes, way in the back. Alan Dixon is a valued colleague of mine. Our parties are today together. We are working on what's best for Illinois.

We have coordinated this hearing with the Agricultural Committee. Two important members of that committee, besides Alan Dixon, are Senator Boschwitz and Senator Helms, both of whom are members of the Foreign Relations Committee. They have strongly urged that these hearings be held and have pledged to follow up on this in the Agricultural Committee. Representing the chairman of the Agricultural Committee, Senator Helms, this morning, is James O'Mara. Jim, would you stand up, please? Right in the back. Thank you very much indeed.

The need for this hearing came to my attention some time ago. We decided to hold the hearing right here in the heart of our agricultural export community in America. I particularly wish to express appreciation to the University of Illinois and to Dean Orville Bentley of the College of Agriculture for making available these facilities and backing us up so strongly.

It is fitting that this hearing be held on World Food Day, with so many experts gathered here at the university to discuss the problems of feeding an expanding world population.

In just our lifetime, the United States has moved from the largest oil exporting nation in the world to the largest importer of oil in the world. Our import bill, at present prices, is approaching $100 billion a year, and almost half of that is paid for by agricultural exports. If we are to continue paying those bills, if we are to continue to keep the dollar strong, if we are to keep a surplus in our balance of payments, as we must have over a period of time, it's going to depend upon agriculture more than any other single thing, and certainly anything that impedes or looks as though it's going to stand in the way of our exporting agriculture to the world is a matter of deep concern.

We can be very proud indeed of Illinois role as the leading agricultural exporting State in the Nation. The farmers and businessmen of Champaign County should share in that pride, as this is truly the center of our State's soybean and corn production. From 1971 to the present, the value of Illinois foreign exports has quadrupled from $670 million to $3.6 billion. That represents 9 percent of the U.S. agricultural exports for 1980. That translates into jobs for Illinois; lots of jobs.

For instance, in 1972, 39,000 workers were directly or indirectly employed in agricultural work related to exports. By 1980, the number had reached 120,000 workers. That's one out of every two farm jobs in Illinois dependent upon exports. The increase in our exports of processed agricultural products would expand the value of our exports far more, and have a dynamic effect upon generating more United States and more Illinois jobs, one of the highest priorities that I have in my responsibility as U.S. Senator.

The continued viability of these export markets is critical to the Illinois economy. This is even more so today with the commodity prices fluctuating downward and interest rates remaining high.

That is why I was so concerned this 1981 summer when I learned that our critical exports markets in Europe were threatened by a wave of agricultural protectionism spreading across the continent.

Although many commodities are affected, the most visible targets seem to be the U.S. exports of soybeans and corn gluten feed, a byproduct of the corn wet milling industry, centered in Decatur, just Southwest of us here. New limitations on either of these markets would be plainly harmful to Illinois farmers and processors.

The most visible and urgent threat to our soybean trade is the most recent recommendation by a three member General Agreement on Tariffs and Trade [GATT] panel upholding the right of the Spanish Government to impose internal consumption quotas on oil crushed from imported soybeans. In my view, this practice is in violation of the GATT agreement solemnly entered into by every country that's a member of it.

On November 3, 1981, the full GATT Council will decide this case. I have already met in my office with the Ambassadors of the Association of Southeast Asian nations, asking them to support our position before the GATT, and I think we will have the assurance that every single one of their countries will support our position.

Further, I have conferred with our Ambassador to the GATT, Michael Smith, who has assured me that this case is being given a high priority by the Office of Trade Representative.

I have two other concerns. First, the assault on our trade agreements with the European Community is not limited to soybeans. Our $600 million to $700 million nongrain feed trade with Europe is threatened by a levy on corn gluten feed and other protein feed ingredients. The Library of Congress, in a study I ordered, told me that the levy could reduce national farm income by $300 million in 1983. The reports that have been made for me by the Library of Congress are brilliantly researched. Drop me a note, Chuck Percy, U.S. Senate, Washington, D.C. 20510, and I'd be happy to send a copy of this extensive study for you. They were made especially for these hearings. They will be incorporated as part of the record, but a copy is certainly available to you.[1]

Second, the new export subsidies that are being put in place in Europe, threaten to undercut markets for American agricultural products in Latin America, and as far away as the People's Republic of China.

Our exports to Europe are also suffering from this new protectionism. Europe's share of our export market has dropped from 25 percent to 20 percent in the last 6 years. Corn exports have dropped from 13 million tons in 1975 to 9.4 million tons in 1980. We simply cannot afford any further erosion of European markets, particularly through actions running contrary to existing bilateral trade agreements. This is placing a tremendous penalty on the high efficiency and great productivity of American agriculture. We ought to be given an incentive, when we are able to produce at efficient and world competitive prices, rather than have penalties placed on us, which penalize every single consumer in all of these countries.

I have always strongly believed in free and liberal trade policies. I fought for them as the head of a camera company, Bell & Howell. At the time, my whole industry was protectionist-minded. For 25 years I fought for lower tariffs on photographic products, to be an example to the world that we believe we have our actions where our mouth is in this case. We believe in that principle. And I worked side by side as a legislative chairman for President Eisenhower to have freer trade policies. I have fought protectionism, even for Japanese automobile imports, knowing that if we ever gave in to putting quotas on these and other products, they would retaliate against us, and that would penalize agriculture. So, our hands are clean. Our record is strong. We have had bipartisan support ever since the early days of Eisenhower, and every President and every Congress since then has enunciated that policy. We can now go do battle with some of our friends in Europe. Some are protectionist. They are afraid of our efficiency and they are penalizing their consumers, at the expense of the American producer and the American farmer. I believed in free and liberal trade policies through the years. Attempts to protect inefficient domestic producers through raising tariff barriers can only invite retaliation. No one benefits from trade wars.

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[1] See p. 193 and p. 209.

I have talked to Senator Helms, chairman of the Agriculture Committee on Foreign Agricultural Policy. Both are deeply interested in this problem and they will hold followup hearings in Washington, D.C., in mid-December.

We are quite fortunate to have an outstanding list of witnesses to outline the problem and to suggest constructive solutions. Together, here today, we must send a message to the European Community that agricultural trade protectionism is the wrong course to follow.

Our first panel this morning will be addressing the problem we face in Europe with our corn gluten feed.

In his position as business manager, Feed Products, for Corn Products, a unit of CPC International, Gordon Rapp has been closely involved in the corn wet milling industry, and has directed the marketing of corn gluten feed for CPC International, one of the leading corn milling concerns in the United States and the largest corn refinery worldwide with offices in the European Community. Mr. Rapp will provide us with an understanding of U.S. agricultural relations with Europe.

Addressing the importance of corn gluten feed exports, we are delighted to have with us today Dr. Vernon McMinimy, director of commodities research for A. E. Staley Manufacturing Co., and formerly with Continental Grain Co. in both New York and Geneva, Switzerland. While working in Geneva, he analyzed trade in Western Europe, North Africa, and the Middle East.

Also, on the first panel is William Mullins, who is involved in cultivating approximately 2,000 acres of corn in De Kalb County. He is currently president of the National Corn Growers Assoc., which represents 16 States, accounting for over 90 percent of average U.S. corn production. We are looking forward to hearing his views on the importance of agricultural trade to Illinois farmers.

Finally, we will hear from Illinois William Taylor, active in labor affairs since 1976, and currently president of the Corn Council of the Oil, Chemical, Atomic Workers Interational Union, and the International Wet Corn Milling Council, AFL–CIO.

Each of these gentlemen will have an opportunity to speak for 5 minutes. A full copy of your testimony will be incorporated in the record. But since we are anxious to have some time for questions and extrapolation we will use the same light system that we use in the Senate. The yellow light will go on when you have 1 minute of time remaining, and the red light will show that time has been completed. We will hold all questions until we have heard from everyone on the panel. We look forward very much indeed to your testimony.

I also want to express my appreciation to Congressman Ed Madigan for his coperation. He is tied up in official House of Representatives business today and could not be with us. He would have been very, very welcome indeed. Mr. Rapp, if you would be good enough to begin.

TESTIMONY OF GORDON D. RAPP, BUSINESS MANAGER FOR FEED PRODUCTS, CORN PRODUCTS UNIT OF CPC INTERNATIONAL, INC., ENGLEWOOD, N.J.; VERNON McMINIMY, DIRECTOR, COMMODITIES RESEARCH, A. E. STALEY MANUFACTURING CO., DECATUR, ILL.; WILLIAM MULLINS, PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION, SHABBONA, ILL.; AND WILLIAM H. TAYLOR, PRESIDENT, OIL, CHEMICAL, ATOMIC WORKERS INTERNATIONAL UNION CORN COUNCIL, AND THE INTER-UNION WET CORN MILLING COUNCIL, AFL-CIO, ARGO, ILL.

Mr. RAPP. Senator Percy, thank you very much for this opportunity to join in examining the probable impact of European Economic Community efforts to restrict commodity imports. We appreciate the interest shown by you in protecting the interests of Illinois farmers and businesses. As you may know, CPC International has been a leader in the worldwide corn refining industry for 75 years. In Europe, our history began in 1838, and we believe we have a unique understanding of the interwoven needs for world trade in corn and other products.

The agricultural policy of the European Economic Community [EEC], was originaly designed to meet these two objectives; to help European farmers, and, at the same time, provide a dependable internal supply of agricultural products for European consumers. It was inevitable that the resulting highly complex structure would create entirely new trade relations, agricultural economics, and new business opportunities, while simultaneously causing the decline of some other businesses in existence at the time.

One of the fundamental factors behind this agricultural policy is price support for domestic grain at levels far higher than world markets, protected by levies on imported grain. This has penalized the U.S. grain business, but, in turn, has created opportunities for the importation into the EEC of nongrain animal feed ingredients, priced at these lower world levels.

The major ingredients which have moved into the market are tapioca—manioc—which is a source of energy for feeding animals; soybean meal as a source of protein; and corn gluten feed, which is both a source of protein and energy.

Corn gluten feed has become well recognized as the quality ingredient, which fits well into European feed formulations. In 1972-73, we have exported 800,000 tons into Europe, and this has increased to nearly 3 million tons annually. A sign of full acceptance is the fact that the average European feed formulas contain 4 percent corn gluten feed, but then that's hardly a threatening amount in the 80 million ton European feed market.

There has recently been pressure within the EEC to force a cutback in the importation of ingredients such as corn gluten feed by imposition of levies. The alleged purpose is to replace corn gluten feed with local grains and to prevent huge expected volumes of distillers dried grains, a product somewhat similar to corn gluten feed, from flooding the European markets once the gasohol production program in the United States gets into high gear.

The facts really are that, under the conditions, ethanol production is really not taking off as once expected. While 8.4 billion gallons of ethanol from biomass had been predicted by the end of this decade, expectation now is closer to 10 percent of that amount. On a corn base, using corn as the biomass, this reduces the volume of the distillers dried grain, which would have been generated from 25 million tons, to only 10 percent, or 2.5 million tons, again, certainly not a threat of any kind in that huge European animal feedstuffs market.

Levies or quotas, even if they did provide short-term aid to grain farmers, would raise prices to the animal feeding sector in Europe. The major animal production and feeding industry groups in Europe have most strongly opposed these measures, because such new regulations would increase their cost of production and, again, cost to the consumer of meat, milk, and eggs.

Furthermore, the EEC is a member of the General Agreement on Tariffs and Trade, and has participated in multilateral trade negotiations since 1960–61, and has agreed to a zero levy on corn gluten feed. We believe that such an agreement should not be violated, and this U.S. position has been repeatedly reinforced by Secretary of Agriculture Block and U.S. Trade Representative William Brock.

Furthermore, the U.S. corn wet milling industry has developed this market over many years. Large capital investments have been made, and the total distribution chain has been structured to enable U.S. production to move into Europe. This has contributed, as you pointed out, to the health of our industry and to the U.S. balance of payments, while providing Europe with a quality ingredient.

We strongly believe in the, as you have put so well, in the fair trade of merchandise anywhere in world markets where products from one country can find an economic niche in another. Any EEC attempt to limit importation of corn gluten feed, or any other ingredient, by unnecessary direct levy should be firmly and immediately opposed by all of us.

Senator Percy. Thank you very much indeed, Mr. Rapp.

Now, Mr. McMinimy.

Mr. McMinimy. Thank you. It's indeed an honor to appear before you today, and you are to be congratulated on the timeliness of these hearings, as there are many issues pending for those of us in the agriculture sector, pertaining to export trade opportunities. I commend you for your longtime interest in foreign trade and your appreciation of its importance to U.S. agriculture. Your experience in the private sector, as you indicated, has highlighted your awareness of the opportunities in an expanded world of mutually advantageous trade.

Corn gluten feed is a major byproduct derived in the wet milling process of obtaining starch, sweeteners, and ethanol from corn. The value of corn to the wet milling process is closely related to the sum of the value of primary and byproducts obtained from the processing of the corn. Thus, we are very concerned in obtaining and maintaining the best markets possible for all of the products we derive from corn, including corn gluten feed. This benefits not only us, but the people who we buy the feedstock from.

Corn gluten feed is used as a livestock feed ingredient. Primarily it's used as a feed ingredient in cattle and swine rations, but may also be used to a limited degree in poultry breeder rations. Most corn gluten feed we produce is exported to the European Economic Community.

There is presently within the EEC considerable concern regarding the form and cost of their Common Agricultural Policy in general, and the role that the corn gluten feed plays in this. We feel that your hearings are most appropriately timed, as any restriction on the imports of grain substitutes into the EEC would directly effect our exports and the value of corn gluten feed, and thereby the value of corn.

We have recently undertaken an analysis of the corn gluten feed production and export usage situation in our company, with the view of evaluating the situation in terms of future total corn gluten feed production. Essentially, how much have we produced in the past, how has it grown, why has it grown, and where has the product been utilized? And we have basically covered the 1972 period, to date, in terms of evaluating the data.

While I was in Europe, with Continental Grain in Geneva, We received several inquiries from European sources, wondering if American producers were producing corn gluten feed for the purpose of exporting that material to the European Community. We assured them at that time that we hoped that that was not the case, insofar as the value of the corn gluten feed derived from processing corn will cover about 50 percent of the cost of the corn. So, we would hope that there weren't any manufacturers in the United States that were acquiring corn for the primary purpose of producing corn gluten feed because it couldn't be a profitable proposition but this view is widely held in the Community.

In our analysis, we found that the production of corn gluten feed, corn processed by the wet milling process, has grown substantially from 1972 to 1980. The growth in production has been essentially equivalent to 1.3 million tons of corn. Most of the increase in the production during that period has been for acquiring starch and sweeteners from corn. Very little has resulted from the production of corn ethanol or alcohol.

During this period, we have seen the exports of corn gluten feed rise—going to the Community, from about 830,000 metric tons in 1972 to essentially 2½ million tons in 1980. At the same time, production of corn gluten feed has risen by 1.83 million metric tons. Essentially, one-half a million tons has shifted away from the U.S. market to the European Community market, so that, at the present time, instead of exporting half of our corn gluten feed to the Community, we are essentially exporting 90 percent of our corn gluten feed, and the question arises as to why this occurred. Very simply, it arises because the Community, through its price supporting mechanism, maintains their grain price much higher than world prices, and that has drawn the U.S. corn gluten food to the European market, to the benefit of the consumers and feeders within the Community. It's to their advantage that they have access to this material.

In our analysis, we also did an extensive evaluation as to where we were going from here in terms of corn gluten feed production as a result of the substantial plans for producing ethanol from corn that were announced in the late 1970's. However, since the announcement of those plans, there has been a substantial retrenchment to the point at present time, we do not expect there will be a great increase, as earlier thought in the production of ethanol in the 1980's. By 1985, we expect corn gluten feed production in the United States to be in the neighborhood of 4.3 million metric tons. 4¼ million tons would go to the Community. So there is some limitation to the exposure of the Community to exports of this material from the United States.

Senator PERCY. Thank you mery much, Mr. McMinimy.

Mr. Mullins.

Mr. MULLINS, Thank you, Senator Percy. I appreciate the opportunity to be here today to express the views of the National Corn Growers on this issue, and the corn producers interest in how this issue is going to affect agricultural policies of the European Economic Community and the effects it will have to U.S. agricultural trade.

However, prior to addressing these issues, I'd like to take this opportunity to commend you and your colleagues in the U.S. Senate for your efforts in the successful drafting of legislation for the 1981 farm bill, and you personally for your work that you contributed in the lifting of the U.S.S.R. grain embargo and also the reestablishment of trade with the Soviet Union. This, of course, is a very crucial market for the corn producers of the United States, and we appreciate your efforts along those lines. We also appreciate yours and Senator Dixon's introduction of legislation that would prohibit selective embargoes against agriculture in the United States in the future. I have submitted a written copy of my testimony, in the interest of the green, yellow, and red lights. I'm going to speak to viewpoints just off the top of my notes.

I looked at this issue, and I just wondered, to put it into perspective, how is that really going to affect the U.S. corn producer, and you mentioned $300 million cost to the producer. My figures indicate a possible $1 billion cost to the producer. I arrived at that using our current exports of corn gluten feed, 2½ metric tons to the European Community. This would equate to 20 million bushels of soybeans, or 70 million bushels of corn and protein and energy equivalents, or, to relate it all to corn, it would be approximately 84 million bushels of U.S. corn equivalent. Recent ecometric studies show that every 100 million bushels would affect it by 16 cents. So that equates to well over $1 billion of direct cost to the U.S. producer. And I think you fully realize the shape of economic reality of the U.S. producer right now is very dim. We currently have cost production far exceeding our sale price of corn, and I don't think that we can stand any more pressure that would be imposed by an additional billion dollar loss in gross revenue. And this is to say nothing of the effect that the duty would have on the wet milling industry and the jobs and the demand for U.S. corn that this industry supplies.

Another issue of concern would be that, if the European Economic Community is successful in putting on these duties on corn gluten feed, they are also going to be successful in setting a precedent for further duties in the future, and I think ultimately it will end up effecting soybeans and soybean meal, which of course I am a producer of, and we have representatives here today that are going to speak in more detail on this issue. That too will be a further concern also to the producer.

The third issue, or third point, I'd like to raise would be that we, NCGA, feel that the EEC is on the crossroads of making farm policy decisions, and that their successful establishment of duties on corn gluten feed at this particular time would have major impact on the decisions that they make for future policy direction. So, the NCAG recommends protecting corn gluten feed and meal against the import duties from EEC by standing firm on our rights, as defined in the GATT agreement. And we support Secretary Block's firm stand against the EEC, of imposition of artifical barriers to expand international trade, and we feel we should move forward with the purpose of expanding U.S. agricultural exports. Recently I had the opportunity to have dinner with a member of the European Parliament and chairman of their Agriculture Committee, Sir Henry Plum. One of the points that stood out in my mind after speaking with him was that we do have their attention, and he did not really understand why Secretary Block was so firm with some of the statements that he was making.

I think hearings like the one you have scheduled here today will help emphasize the importance of this issue and make a better understanding to the Community that we are going to stand firm against these duties and for our right in the GATT agreement. I appreciate the opportunity to be here, and I appreciate your concern on this issue, and we will be supportive of your action in this. Thank you.

Senator PERCY. Thank you very much.

And now President William Taylor of the Oil, Chemical & Atomic Workers International Union Corn Council and the Inter-Union Wet Corn Milling Council, AFL-CIO, Argo, Ill.

Mr. TAYLOR. Thank you, Mr. Chairman. Good morning. Mr. Chairman, I am William Taylor of Chicago, Ill., president of Corn Council of the Oil, Chemical & Atomic Workers International Union Corn Council, and the Inter-Union Wet Corn Milling Council, AFL-CIO, and I am testifying today on behalf of both groups. I appreciate the opportunity you are providing us to discuss the employment state in agricultural trade, along with agricultural processing companies in which your members are employed. We share deep and continuing mutual interest in protecting existing jobs, creating additional jobs, and expanding—generate through the expanding processed product, share the U.S. agricultural exports. Mr. Chairman, I will summarize my testimony briefly, but will ask that the full statement be made a part of this.

We are concerned over the extent to which the United States, although a highly industrialized nation, is becoming a raw material supplier to the world. When raw materials such as wheat, corn, soybeans, aluminum, copper, and other renewable and nonrenewable resources are moved off shore for conversion into finished goods, and in many cases resale in the United States and other world markets, it means we are exporting job opportunities and losing added value to our economy, of domestic processing. Sizable potential economic benefits are associated with having a greater portion of our exports processed or finished at home. The economists in the U.S. Department of Agriculture have been studying the multiplier effect on our economy, for exporting processed products compared to raw materials, and they are finding out how expanding shares in the U.S. agricultural exports can stimulate business activity, create thousands of additional jobs, and increase personal income. Perhaps these summarized figures based on the USDA study reflects how significant promotion of value-added exports can be. Even if 10 percent of the wheat we export now were exported, instead, as flour produced from that wheat, and 10 percent of the wheat we export now were exported, instead, as flour produced from that wheat, and 10 percent of the current corn exports were marketed as corn wet milling products, it would generate $13.36 billion. In additional business activities, it would create 287,700 additional jobs, and produce nearly $3 billion in added personal income. As president, added rates of corporate and personal income tax, the expanded domestic economy activities would in turn generate an additional $287 million in Federal tax revenue. The obvious conclusion is that the Government could not only afford to produce various financial incentives for increasing export of the value-added process product; it most likely cannot afford not to, because we believe that a vigorous—excuse me, because we beleive that a value-added export, for policy, would benefit the entire economy. Our international union, and a large number of other unions who share our interests and concern, intended on corn processes, flour mills, soybean processes, and establishing a new coalition that plans a yearlong education and legislative campaign for that objective. We believe it will be a unique joint interest, joint interest labor effort, that can serve the best interests of not only our members, but the entire U.S. economy. Mr. Chairman, we will add—have a kickoff meeting of the coalition within the next 2 weeks. You will be hearing more from us.

Mr. Chairman, we thank you for the interest you have shown in our objective by inviting us to testify today. We welcome your support. We hope a similar interest can be shown by the Agricultural Committee and the Joint Economic Committee of Congress. Perhaps your hearing today can stimulate their interest, and it was indeed an honor and a pleasure to appear here today. Thank you, Mr. Chairman.

Senator PERCY. Thank you very kindly indeed.

Mr. Rapp, I wonder if you could first tell us why, in your judgment, did the European Community agree to a zero levy on corn gluten feed during the Kennedy round of negotiations, while insisting on a tariff on raw corn?

Mr. RAPP. I believe the tariff on corn and all grains was a function of supporting their own grain producers. I think that has been the basic factor, that they have had their own grain production within Europe, especially France and Germany, and they have found that, with their own production competing on the world market and the world market and U.S. production being that much more efficient and lower costs, that they had to do something to protect their own internal structure and farmers. At the time in which corn gluten feed was included in GATT, it was really zero export at that point, and corn gluten feed was not a significant factor in world trade at all in the 1960–61 period.

Senator **Percy**. What is the basis for their concern, if corn gluten feed makes up for only 4 percent of European feed rations?

Mr. **Rapp**. I think their theory is that, even with a 4 percent or 2½ to 3 million tons that come in here, this would be tonnage which could be used by their own—grown by their own farmers and used in feed formulas. But, in fact, assuming they did put a tariff on gluten feed and gluten feed did not move into that market, the facts still are that—there is some difference of opinion on this—an equivalent amount of grain would not be used in the formulas, because the grain nationally still has to compete with tapioca, soybean meal, all the other ingredients in the marketplace. So removing it would not decrease consumption of 3 million tons of grain. It would increase it to some extent, but not fully.

Senator **Percy**. Dr. McMinimy, how important is the vibrant European market for corn gluten feed to Staley?

Mr. **McMinimy**. Well, it's quite important to us, as I indicated, that 90 percent of the corn gluten feed produced in the United States goes export. Ninety-nine percent of that export goes into the European Community. If we were to lose that market, we would be forced to sell that material back into the market, competing with the lower priced feed grain and receive a substantially lower value for the corn gluten feed. So, it's a substantial concern to us, in terms of returns to the company and in terms of our ability.

Senator **Percy**. Can you expand a little more on what you think would happen in the corn gluten feed market if the Europeans did impose a levy?

Mr. **McMinimy**. What would happen here——

Senator **Percy**. Yes.

Mr. **McMinimy**. Or in the Community? Well, essentially, corn gluten feed is a byproduct. The quantity produced does not determine the value of the product. It's determined by the value of the product. It's determined by the value of the primary product that you are processing the corn to get, such as sweeteners, starches, and such as this. So, the value of corn feed doesn't determine the quantities that are produced, nor does the value of that feed affect the quantity that's used. It's the price of corn that determines the price of corn gluten feed. So, once you have obtained that product, it's essentially nonstorable. It immediately has to go—reasonably immediately has to go into consumption at whatever price it can go. It would displace, essentially, corn and soybean in usage in this country, to the extent that it had to find a buy market and clear the supplies from the market.

Senator **Percy**. Thank you very much. Mr. Mullins, how would a contraction of the market for corn gluten feed affect your members?

Mr. **Mullins**. It would affect us in the profitability of sales of our product, as Vern indicated, that corn gluten feed would replace the corn currently being consumed and we are selling to the domestic market at lower levels, because of its lack of storability and its need to be moved and fed. And this would cause major losses to U.S. corn producers, this is how I related to the billion dollar loss to the U.S. producer, because of this offset in approximately 84 million bushels of corn that we presently have a market for domestically.

Senator PERCY. Wouldn't the corn be used?

Mr. MULLINS. Most certainly, it would be used, but we would be putting an additional 84 to 100 million bushels in the surplus supply that we'd have to find a market for. And for every 100 million bushels of excess, you reduce domestic prices by 16 cents. Currently we are selling corn at $2.40 a bushel, and it's costing us well over $3 to produce, and we can ill afford to have another 16-cent reduction in domestic prices.

Senator PERCY. I'd like to show you some Staley Co. corn gluten, for those of you in the audience who have not actually seen that remarkable product.

Mr. MCMINIMY. Senator, if I may, we took the liberty to bring a sample of pellets, and this is the form that the product is in when it's exported. In the jar, we have the product in the form that it comes out of the plant, and then it's pelletized to facilitate shipping. It arrives in Europe hopefully in the condition you have in the bag in your left hand.

Senator PERCY. Well, what we are going to do is pass this around. You can each take a sample of this. Take a look at this, but also I'd like to present to you a package, and we will pass it around so you can sample them. We got a couple of packages of corn chips. I was on the Ozark jet last night that comes in from the Baltimore-Washington International Airport, and they served a sandwich, beverages, and corn chips. And I wrote a little note on the back of one of my cards to the president of Ozark Air Lines, and I thanked him for serving corn chips rather than potato chips on its flights into the greatest corn producing State in the Nation.

We've got corn, and this corn is selling because no one can beat the low cost. We have got to find new markets, and I am glad to see Ozark Air Lines has seen the light now and is serving corn chips. So I will present these to you, and we can pass them around as samples.

Now, our final witness—I do want to ask Mr. Taylor a question, but I first want to applaud the announcement that you have made this morning of the Business-Labor Coalition to promote value added exports. I think this shows another example of American labor and American business joining hands to create new jobs. And increasingly there is a desire in labor and management—though they have differences in collective bargaining—to join together in creating American jobs and expanding our export markets and working together. The Alliance to Save Energy that Hubert Humphrey and I founded includes the head of the IFG, Communication Workers, and top industrialists. But we also have five Cabinet members who are cochairmen with me. I would recommend that you may want to work a few Government people into this coalition. I would be very honored to join. I know Senator Dixon would be happy to join. We would like to work closely with you in seeing what can be done to promote value-added exports. My job is to be the number one export sales promoter for Illinois products: corn; beans; coal; services. This includes fighting to get Illinois-based United Airlines landing rights in Tokyo so we can get on a United Airlines plane and fly non-stop to Tokyo from Seattle instead of Japan Air Lines. After all, Japan exports a lot of things here. We want to have services and all the rights and privileges that we can have in order to correct the current trade imbalance we have with Japan.

Just a question or so for you. What can we in the Congress do to help you more at this particular time?

Mr. TAYLOR. Mr. Chairman, we believe that, in the Government dealings with nation to nation, the sale of raw grain, that a portion of that grain be, as we stated earlier, exported in processed grain. That in turn would stimulate new jobs and new income revenue for the country.

Senator PERCY. What are the principal problems that you face in overcoming the trade barriers in other countries which make it difficult to export value-added processed food products?

Mr. TAYLOR. Well, I imagine, with the tariffs that some countries place on our refined products, would be, you know, be disadvantageous to us, but we believe primarily that the discussion of making part of the overall export of raw grain, part of that, if the Government would make part of that sale in the processed grains, that that could do more than anything else to stimulate the creation of new jobs in this country.

Senator PERCY. Well, I thank you, and I would just like to say that we will be discussing Spain later in our testimony and, at that time, I will talk a little bit about some of the things I think we can do to work closely with you.

We have a rule in the Senate, as you know, no applause is permitted. But, being the chairman, I find you can change the rules anytime you want. Let's give this panel a round of applause.

[The prepared statements of Messrs. Rapp, McMinimy, Mullins, and Taylor follow:]

Urbana, IL. October 16, 1981

U.S. SENATE GOVERNMENTAL AFFAIRS SUBCOMMITTEE HEARING ON
EEC COMMODITY IMPORT RESTRICTIONS

SENATOR CHARLES H. PERCY, CHAIRMAN

STATEMENT BY GORDON D. RAPP, BUSINESS MANAGER - FEED PRODUCTS,
CORN PRODUCTS UNIT OF CPC NORTH AMERICA

Thank you for this opportunity to join in examining the probable impact of European Economic Community efforts to restrict commodity imports. We appreciate the interest shown by both Secretary Block and Senator Percy in protecting the interests of Illinois farmers and businesses. As you may know, CPC International has been a leader in the world-wide corn refining and food industries for seventy-five years. In Europe, our history began in 1838 and we believe we have a unique understanding of the interwoven needs for world trade in corn and other products.

The agricultural policy of the European Economic Community (EEC) was originally designed to meet two objectives: to help European farmers, and to provide a dependable internal supply of agricultural products for Europe.

It was inevitable that the resulting highly complex structure would create entirely new trade relations, agricultural economics, and new business opportunities, while simultaneously causing the decline of some other businesses in existence at the time.

One of the fundamental forces behind this agricultural policy is price support for domestic grain at levels far higher than world markets, protected by levies on imported grain. This has penalized the U.S. grain business, but in turn created opportunities for the importation into the EEC of non-grain animal feed ingredients priced at world levels.

Major ingredients which started moving into the EEC in increasingly significant volumes were:

- Tapioca (manioc) which became an important source of ENERGY for animals.
- Soybean meal to supply the PROTEIN need.
- Corn gluten feed, a source of both protein and energy.

Corn gluten feed has become well recognized as a quality, economical ingredient which fits well into European feed formulations. From about 800,000 tons in the 1972-73 period, imports (primarily from the U.S.) have increased to nearly three million tons this year. A sign of full acceptance is the fact that European feed formulas contain about 4% of U.S. corn gluten feed on average -- hardly a threatening amount in the 90 million ton European feed market.

There has recently been pressure within the EEC to force a cutback in the importation of ingredients such as corn gluten feed by imposition of levies or quotas. The alleged purpose is to replace corn gluten feed with local grains, and to prevent huge expected volumes of distillers dried grains (a product somewhat similar to corn gluten feed) from flooding the European markets once the gasohol production program in the U.S. gets into high gear.

The facts are that under the present conditions, ethanol production is not expanding as expected. While 8.4 billion gallons of ethanol from biomass had been predicted by the end of this decade, the expectation now is closer to 10% of such a target. On a corn base this reduces the volume of distillers dried grains which would be generated from 25 million tons to only 2.5 million tons -- again, certainly not a threat of any kind in the huge animal feedstuffs market.

Levies or quotas, even if they did provide short term aid to grain farmers, would raise prices to the animal feeding sector. Major animal production and feeding industry groups in Europe have strongly opposed these measures because such new regulations would increase costs of production (and consumer prices) for meat, milk and eggs.

The EEC is a member of the General Agreement on Tariffs and Trade (GATT), has participated in multilateral trade negotiations since 1960-61, and has agreed to a zero levy on corn gluten feed. We believe that such an agreement should not now be violated, and this U.S. position has been repeatedly reinforced by Secretary of Agriculture Block and U.S. Trade Representative William Brock.

Furthermore, the U.S. corn wet milling industry has developed this market over many years. Large capital investments have been made, and the total distribution chain has been structured to enable U.S. production to move to Europe. This has contributed to the health of our industry and to the U.S. balance of payments, while providing Europe with a quality ingredient.

CPC strongly believes in the fair trade of merchandise anywhere in world markets where products from one country can find an economic niche in another. Any EEC attempt to limit the importation of corn gluten feed (or any other ingredient) by an unnecessary direct levy, quota or otherwise, should be firmly and immediately opposed by all of us.

# # #

A. E. STALEY MANUFACTURING COMPANY 2200 ELDORADO STREET DECATUR ILLINOIS 62525 TELEPHONE 217/423-4411

Testimony of Mr. Vernon R. McMinimy
Director of Commodity Research

Governmental Affairs Subcommittee
on Energy, Nuclear Proliferation and Government Processes

U.S. Senate

October 16, 1981
Urbana, Illinois

Mr. Chairman:

It is indeed an honor to appear before you today. You are to be congratulated on the timeliness of these hearings as there are many issues pending for those of us in the agriculture sector, pertaining to export trade opportunities. I commend you for your long time interest in foreign trade and your appreciation of its importance to U.S. agriculture. Your experience in the private sector has highlighted the opportunities in an expanded world of mutually advantageous trade.

I am Vernon McMinimy, Director of Commodity Research at A. E. Staley Manufacturing Company, Decatur, Illinois. The A. E. Staley Manufacturing Company is the largest corn refiner in the United States and the third largest processor of soybeans. We are a major user of corn and soybeans produced in Illinois and as such, have a significant interest in the maintenance of a healthy and prosperous agriculture in the State of Illinois.

Corn gluten feed is a major by-product derived in the wet milling process of obtaining starch, sweeteners and ethanol from corn. The value of corn to a wet milling processor is closely related to the sum of the value of primary and by-products obtained from the corn. Thus, we are very interested in obtaining and maintaining the best markets possible for all the products we derive from corn - including corn gluten feed.

Corn gluten feed is used as a livestock feed ingredient. It is primarily utilized as a feed ingredient in cattle and swine rations and may also be used to a limited degree in poultry breeder rations.

Senator, in recent months we have heard considerable concern expressed by various parties within the EC over the pending flood of grain substitute imports into their market and the need to protect their market from this flood. We have noted statements indicating they expect that by the mid-1980's corn gluten feed imports could reach and exceed the 10 million metric ton level - a fourfold increase over their imports in 1980. These fears have led some within the EC to call for barriers to be imposed, which would limit the imports of corn gluten feed.

We believe these fears are exaggerated in that they are not based on a clear understanding of the situation as it relates to the quantities of corn gluten feed they have imported in the past, nor the potential for imports in the future.

There is presently within the EC, considerable concern regarding the form and cost of their Common Agricultural Policy in general, and the role that corn gluten feed plays in this. We feel that your hearings are most appropriately timed, as any restriction on the imports of grain substitutes into the EC would directly affect our exports and the value of corn gluten feed.

We are very appreciative of the opportunity to testify as to our knowledge regarding the past and future exports of U.S. corn gluten feed to the EC.

U.S. Exports of Corn Gluten Feed
A Look at the Recent Past and Ahead to the Mid-1980's

Considerable interest has been expressed in the exports of so-called "grain substitutes" to the EC in recent years. The term "grain substitutes" covers a wide range of items from manioc to citrus pulp. Most of the items included in the category of "grain substitutes" are by-products that evolve from the process of obtaining a product of primary value.

There has been particular interest in the supplies of corn gluten feed, specifically in regard to the potential for the large increases in the exports of this material from the U.S. to the EC. Much of the concern over the potential of U.S. supplies of corn gluten feed arose with the development in the late 1970's of an aggressive U.S. Government sponsored program to produce ethanol with grain being used, at least initially, as the main feedstock. This program was a part of an effort to limit the United States' dependence on imported petroleum. In response to this program to promote the production of gasohol, a large number of construction plans and intentions were announced to construct facilities to produce ethanol from grains. These plans and intentions, if carried to completion, would have resulted in a large increase in the production of grain derived ethanol and a large increase in the supplies of the by-products, corn gluten feed and distillers dried grains. The prospect of a large quantity of by-product feeds becoming available, raised concern within the European Communities (EC) as the supplies of the by-product feeds, primarily corn gluten feed, have a strong propensity to flow into the European Communities market. In fact, essentially all (99 percent) of U.S. corn gluten feed exports from 1972 to 1980 have gone to the EC. The prospect of seeing these supplies increase fourfold, as projections based on a fullfledged gasohol program foresaw, by the mid-1980's from the 1980 level raised widespread concern among grain interests within the European Communities.

The concern of the EC grain interests arises out of the fact that corn gluten feed (and other grain substitutes) do, as the term suggests, substitute in feed rations for grain and protein meals ingredients. By-products are attractive to the EC compounders because by using the cheaper grain substitutes instead of grain, they can formulate a less expensive compound for many of the animal feed rations. At present, most compounders outside the EC cannot develop a price efficient ration using these by-products in large quantities. The fundamental reason for this apparent paradox is that grain produced within the EC is supported at a price which is well in excess of (often twice) the world market price. To ensure that EC grain prices stay at or above the support level, the EC requires that any imported grain pay a levy equal to the difference between the world price of grain and the EC support price of grain. This levy system serves to restrict the imports of cheaper world grains, thereby protecting the internal price. No such levy system applies to the by-products.

The value of the by-products is determined by it's feeding value (energy and/or protein) relative to that for the primary sources of energy and protein - grains and protein meals, and the market price of the grains and protein meals. In short, a compounder, given the composition and price of each ingredient available, can choose that quantity of each which will yield the compound product he wants at the cheapest price. The value of the by-product is essentially determined by the price of the items (grains and/or oilseed meals) which are primarily used to satisfy the need. Thus, maintaining the internal price of grains at levels well above world values imparts a higher value to grain substitutes used within the EC than they can command in use outside of the EC.

The supply of corn gluten feed is determined by the demand for the products of primary value, corn sweeteners, starch and ethanol. There is an impression among some in Europe that such must not be the case as the exports of corn gluten feed from the U.S. to the EC increased 3.65 times from 1972 thru 1980.

It has been suggested that corn gluten feed was being produced as a product of primary value to take advantage of the good market in the EC. During the period 1972 to 1980, the value of corn gluten feed, as a percent of the cost of corn, has ranged between a low of 17.5 percent in 1974 to a high of 29.9 percent in 1979. The value of the three major by-products (see Table 1) varied from a low of 41 percent of the value of corn this year (1981) to a high of 64 percent in 1977 and 1978. Obviously, no one during this period is likely to have bought corn, paid the cost of processing to obtain corn gluten feed, meal, and corn oil, without obtaining something else, which has a much higher value per bushel of corn.

Having described the economic circumstances relating to corn gluten feed, I would like to examine the data relating to the production and usage of corn gluten feed in the United States. The attached Table 1 shows the production and usage of corn gluten feed for the period 1972 (calendar years) to date. The data shows that in 1980 the production of corn gluten feed totaled 2.8 million metric tons, an increase of 1.3 million metric tons over the eight year period. The increase in production of corn gluten feed is the result of growth in the production of corn sweeteners and starch. During the period, the corn used to produce these products rose from 251 million bushels in 1972 to 445 million bushels in 1980, an increase of 77 percent. (Table 3) Essentially all of the increase in the production of corn gluten feed in this period is attributable to the rising production of corn sweeteners and starch.

Exports of corn gluten feed in the 1972 to 1980 period increased by 1.83 million metric tons and the domestic usage declined by 0.54 million metric tons. As a result, exports during the period increased by 0.5 million metric tons more than production. During the period 1972 thru 1975, domestic usage of corn gluten feeds tended to rise as production increased. Exports in this period were quite variable ranging from a high of 88 thousand metric tons in 1975 to a low of 64 thousand metric tons in 1974. From 1976, domestic usage steadily declined and exports rose sharply. Throughout the entire period under review, one thing is constant, and that is, essentially all of the corn gluten feed exported, went to the EC.

The information shown in Table 3 helps explain why the corn gluten feed market shifted from the U.S. to the EC during the latter half of the 1970's. The reason is simply relative prices of grain. This can be most clearly seen in the comparison of the EC effective import price of corn with the price of corn at Chicago priced in terms of a European currency, Dutch Guilders (HFl). The narrowing of the price difference to 71.8 HFl per metric ton level in 1974 was sufficient to reduce the flow of corn gluten feed to the EC. The sharp strengthening of EC grain prices relative to Chicago after 1975 directly corresponds to the increase in exports shown in Table 2.

The data clearly supports the proposition that the price of grain in the EC relative to the price of grain in the U.S. is the factor primarily responsible for most all of the U.S. corn gluten feed produced going into the EC market. In other words, the EC high price policy for grain is responsible for the U.S. exporting corn gluten feed to that market. As of calendar 1980 - the last complete year - exports to the EC accounted for 91 percent of the corn gluten feed produced in the U.S. As a result, one cannot expect the exports of corn gluten from 1980 onward to experience a significant increase at the expense of the U.S. market as occurred in the last half of the 1970's. The expansion of corn gluten feed exports from now forward will be restricted essentially to the increase in production.

OUTLOOK FOR CORN GLUTEN FEED PRODUCTION

The increase in the production of corn gluten feed is tied to the increased production of corn sweeteners, starch, and corn alcohol. In the period 1972 to 1978 essentially all of the increase in corn gluten feed production resulted from the increase in the production of corn sweeteners. Corn sweetener production in this period grew at a 9.5 percent annual rate - a rate of growth we expect will continue into the mid-1980's. We would also expect the demand for corn starch to continue to increase at the rate experienced in recent years. Based on a recent extensive review of information relating to current plans for corn alcohol production, we project that the production of alcohol derived from corn will result in the usage of 108 million bushels more corn by 1985 than that used in 1980. In 1985 the usage of corn for the production of corn sweeteners and starch is expected to use 512 million bushels of corn - 194 million bushels more than used in 1980. Given these increases in the production of primary products, the production of corn gluten feed in 1985 would total 4.52 million metric tons, up 1.72 million tons over that produced in 1980. About 35 percent of the increase in the supply of corn gluten feed between 1980 and 1985 will come from increased production of alcohol and 65 percent will come from the growth in the production of sweeteners and starch.

We expect that exports of corn gluten feed will continue to account for up to 95 percent of the total usage as compared to 90 percent in 1980. If this proves to be the case, then exports in 1985 would total 4.29 million metric tons - 1.75 million tons above the amount exported in 1980. This would compare to an increase in exports of 1.66 million metric tons experienced in the five year period 1975 to 1980. Essentially, all of the increase in exports would go to the EC in the next five years as it has over the previous five years.

The production of corn gluten feed contained in those projections are far below some projections made earlier. The earlier projections were based on the assumption that alcohol production from corn would experience a very rapid growth in response to substantial financial assistance from various government energy programs and continued rising petroleum prices. However, since these earlier projections were made, several changes have occurred which diminished the prospects for the expansion in the production of alcohol from corn. Among these changes are:

1) Cuts in the federal budget that removed a large part of the funds expected to be devoted to developing the corn alcohol industry;

2) Petroleum prices have stabilized and in recent months,
3) Interest rates rose sharply and;
4) The 1980 corn crop was below expectations resulting in higher corn prices.

All of these changes have resulted in a substantial reduction in the plans to develop the corn alcohol industry.

As indicated earlier, we have recently surveyed our rather extensive information relating to current plans in existence for continuing with efforts to develop corn alcohol production. The results are shown in Table 5. As the data in Table 5 indicates, much of the increase in fuel alcohol production will be accomplished by mash fermenters, whose by-product is distillers dried grains, a product that up to this point has not been exported in large volume.

In summary, our analysis leads us to two major conclusions; first, the EC purchases most all of the corn gluten feed produced in the U.S. and will continue to, so long as their internal grain price remains well above world market levels, and second, the growth in the production of corn gluten feed over the next several years will be much less than earlier studies had projected and as a result, corn gluten feed exports by 1985 will be near 4¼ million metric tons - not 10 million metric tons or more as some have expected.

Thank you.

Vernon R. McMinimy

Vernon R. McMinimy

TABLE 1

CO-PRODUCT RECOVERIES

	Corn	Feed 12.5#/Bu.			Meal 2.5#/Bu.		Corn Oil 1.55#/Bu.		Total	%
	$/Bu.	$/Ton	$/Bu.	% Corn	$/Ton	$/Bu.	$/Lb.	$/Bu.	Rev. #/Bu.	Corn
1972	1.30	50.97	.319	24.5	139.11	.174	16.37	.254	.747	57.5
1973	2.20	84.45	.528	24.0	259.19	.324	22.72	.352	1.204	54.7
1974	3.20	90.50	.566	17.7	229.93	.287	41.30	.640	1.493	46.7
1975	2.91	86.01	.538	18.5	215.60	.270	32.53	.504	1.312	45.1
1976	2.70	100.15	.626	23.2	249.09	.311	25.63	.397	1.334	49.4
1977	2.22	101.43	.634	28.6	252.52	.316	30.68	.476	1.426	64.2
1978	2.31	96.75	.605	26.2	234.60	.293	35.98	.558	1.456	63.0
1979	2.64	126.22	.789	29.9	274.48	.343	32.43	.503	1.635	61.9
1980	3.01	124.75	.780	25.9	255.48	.319	26.34	.408	1.507	50.1
1981 2nd Qtr.	3.47	118.22	.739	21.3	250.75	.313	24.80	.384	1.436	41.4

10/1/81

TABLE 2

U.S. CORN GLUTEN FEED
PRODUCTION/USAGE

	Production	Domestic Usage	Exports(2	Exports to EC
		mil. metric tons		
1972	1.51	.80	.71	.69
1973	1.61	.81	.80	.78
1974	1.64	1.17	.64	.63
1975	1.86	.98	.88	.83
1976	1.93	.89	1.04	1.01
1977	2.03	.61	1.42	1.39
1978	2.24	.57	1.67	1.64
1979	2.49	.49	2.00	1.98
1980	2.80	.26	2.54	2.52
		Projected		
1981	3.06	.15	2.91	2.89
1982	3.57	.18	3.39	3.37
1983	3.86	.19	3.67	3.65
1984	4.17	.21	3.96	3.94
1985	4.52	.23	4.29	4.27

1) Wet millers production from CRA report plus estimated production from non-reporting firms.

2) Census class corn feed and meal.

VRM:o
9/21/81

TABLE 3

CORN AND CORN GLUTEN FEED PRICES

Average $/MT

Calendar Year	EC effective Import Price for Corn	Chicago No. 2 Yellow	U.S. f.o.b Corn Gluten Feed
1972	110.44	49.21	67.60
1973	136.33	86.12	107.28
1974	153.20	126.44	114.17
1975	165.54	113.74	111.03
1976	174.89	106.10	127.86
1977	261.52	86.97	133.39
1978	236.31	90.94	135.26
1979	257.71	104.00	163.15
1980	275.85	118.46	169.04

Hfl per MT

				EC Import Price for corn less Chgo. No.2 yellow U.S., f.o.b.
1972	339.4	151.2	207.8	188.2
1973	380.6	240.4	299.5	190.2
1974	411.2	339.4	306.4	71.8
1975	418.3	287.4	280.6	130.9
1976	462.8	280.7	338.3	182.1
1977	640.0	213.2	326.9	426.8
1978	510.2	196.3	292.0	313.9
1979	515.2	207.9	326.1	307.3
1980	545.9	234.4	334.5	311.5

VRM:o
9/21/81

TABLE 4

CORN UTILIZED FOR THE PRODUCTION OF SELECTED INDUSTRIAL PRODUCTS CALENDAR YEARS 1972-1980 with PROJECTIONS FOR 1981 thru 1985

	Starch	Sweeteners	Alcohol	Total	Production Corn Gluten Feed
	mil. bu.				mmt.
1972	97	154	-	251	1.46
1973	109	178	-	287	1.67
1974	115	196	-	311	1.81
1975	105(1	215	-	320	1.86
1976	98	228	-	326	1.93
1977	105	242	-	347	2.03
1978	113	266	-	379	2.24
1979	116	298	7	421	2.49
1980	120	325	32	477	2.80
			Projected		
1981	115	363	48	526	3.06
1982	120	394	102	616	3.57
1983	122	431	112	665	3.86
1984	125	469	124	718	4.17
1985	127	512	140	779	4.52

VRM:o
9/21/81

Table 5

Projected Fuel Alcohol
Production and Feed
by-products

	Wet Milling			Mash Fermenters	
	mil. gal. yr.	mil. bu. yr.	000 metric tons CGF	mil. gal. yr.	000 metric tons DDGS
1980	80	32	185	-	-
PROJECTION					
1981	120	48	279	20	65
1982	255	102	591	100	327
1983	280	112	650	200	653
1984	310	124	720	320	1043
1985	350	140	813	420	1360

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STATEMENT ON EFFECTS OF EEC IMPORT POLICIES ON U.S. CORN GLUTEN FEED AND MEAL EXPORTS

by

William R. Mullins, President of the Board of Directors

NATIONAL CORN GROWERS ASSOCIATION

before

THE SUBCOMMITTEE ON ENERGY, NUCLEAR PROLIFERATION
AND GOVERNMENT PROCESSES

of the

COMMITTEE ON GOVERNMENTAL AFFAIRS

on

October 16, 1981

I am William R. Mullins, a corn and soybean farmer from Shabbona, Illinois, and the current President of the National Corn Growers Association. Mr. Chairman, I appreciate the opportunity to meet with you today to express the concerns of U.S. corn farmers about the agricultural policies of the European Economic Community and the effects they have on the trade of U.S. agricultural commodities. However, prior to addressing these issues I would like to take this opportunity to thank and commend you and your colleagues in the U.S. Senate for your efforts in drafting legislation for the 1981 Farm Bill. We certainly understand and appreciate the difficulties in drafting legislation representative of a vast array of commodities, as well as the many other provisions that play an integral role in overall agricultural legislation.

As you well know, expanded agricultural trade is vital to the economic prosperity of the United States. In the past ten years, agricultural exports have returned 230.7 billion dollars to the U.S. economy, thereby maintaining a positive agricultural trade balance, the only U.S. industry that can lay claim to such remarkable achievements. In 1980/81 alone, the sales of U.S. agricultural products abroad generated 41.3 billion dollars in revenue, thereby aiding in reducing the negative balance of payments existing between the United States and her trading partners. More fundamental, however, is the dependency of American farmers on the export market to ensure a reasonable level of income on the basis of efficient production and modern farm management. Without sustained U.S. farm exports to meet the food and fiber demands of the world, U.S. farmers are forced to look for income support from other sources, a measure that generally results in decreased production and an inefficient use of the most valuable resource in the United States.

Fortunately, we have continued to overcome the multitude of natural and artificial barriers that have affected U.S. agricultural exports. In 1975, just six years ago, U.S. corn and corn by-product exports totaled 1.7 billion bushels, with an estimated value of $4.4 billion. In comparison, in the 1980/81 season just completed last month, the United States exported 2.4 billion bushels of corn and corn by-products valued at $9.5 billion. These remarkable achievements are a credit to the efficiencies of American agriculture and the tremendous dedication of those involved in the production, processing, and transportation of U.S. agricultural products. The success we have enjoyed has been spurred on by the dependence we have on the export market for vast quantities of U.S. agricultural products, as well as the natural obstacles that have arisen from the challenges of moving large quantities of agricultural products onto the world market. However, we must also recognize the artificial barriers that have impeded expanded international trade and examine these issues to determine the existing and potential effects they may have on U.S. agricultural exports.

The issue that brings us here today has caused immediate concern to those associated with the U.S. corn industry. Various reports recently emanating from the European Economic Community (EEC) indicate that future attempts will be made to restrict the level of U.S. corn by-product exports to the EEC. The use of variable import levies by the EEC is certainly not a new development, but rather indicative of the restrictive tendencies of the Common Agricultural Policy (CAP) adopted by the member countries of the EEC. In order to properly assess the impact that reduced corn by-product exports would have on U.S. corn farmers and the entire U.S. corn industry, we first must examine the past export levels of gluten feed produced by the U.S. corn wet milling industry in terms of both volume and value. The table below outlines the levels of corn gluten feed and meal exports to all destinations for the 1971/72 marketing year through the 1979/80 year, including a partial listing for the 1980/81 season. In addition, we have indicated the percentage volume share of corn gluten feed and meal exports that were destined to the European Economic Community.

U.S. Exports of Corn Gluten Feed and Meal

	All Destinations		EEC
	1,000 Metric Tons	Million Dollars	1,000 Metric Tons
1971/72	338.0	21.7	327.0
1972/73	731.0	62.2	715.0
1973/74	765.0	86.9	743.0
1974/75	784.0	88.9	765.0
1975/76	977.0	117.5	952.0
1976/77	1,364.0	187.8	1,323.0
1977/78	1,631.0	208.5	1,601.0
1978/79	1,843.0	290.5	1,832.0
1979/80	2,461.0	414.0	2,456.0
* 1980/81	2,493.0	405.0	2,473.0

* October-August

As you can see from the above data, we have experienced a steady increase in both the volume and value of corn gluten feed and meal exports from the United States the past several years. Since the 1971/72 marketing season, annual exports have increased by more than 2 million tons, or 740 percent, and have increased in value by more than 375 million dollars. Even more revealing is the fact that corn gluten feed and meal exports to the EEC over the past ten years have, on the average, accounted for 98 percent of the total volume exported. Obviously, any disruption in the flow of corn gluten feed and meal from the United States would have serious effects, not only in the immediate sense in terms of reduced exports, but also through the effects of reduced demand in the long term and the impact this would have on various sectors of the U.S. corn industry.

Corn gluten feed is a medium protein feed and one of several by-products produced by the corn wet milling industry in the manufacture of its primary product, corn starch. The corn starch is utilized in its basic form or is further processed into corn sweeteners or into fuel alcohol. The wet milling industry in the United States has emerged as a major market for corn through the increased demand for corn sweeteners, which have moved from 23 percent of the total caloric sweetener market in 1975 to 32 percent in 1980, and also by increased utilization of fuel alcohol. As demand for these products continues to increase, so will the production of corn by-products such as corn gluten feed and meal. Therefore, the importance of the export market as a final destination for these by-products will continue to grow, and will remain a vital economic element to the sustained success of the industry. Inasmuch as the U.S. corn industry must continue to look abroad for expanded markets for the basic and semi-processed commodities, it is crucial that we strive to overcome the natural and artificial barriers that exist to expanded international trade. We readily recognize the great success that has been achieved in increased world trade, and applaud the efforts of the international community to achieve a fairer, more open, world trading system. These efforts were highlighted by the successful conclusion of the Tokyo Round of Multilateral Trade Negotiations in 1979, wherein attempts were made to remove specific barriers to trade and to develop new rules to govern the international trading system. However, notwithstanding, the many accomplishments of these negotiations, barriers to expanded international trade still persist and will continue in the years ahead unless equitable solutions to these difficult problems are found. In addressing the issue we have discussed here today, the U.S. Agricultural Counselor to France recently stated in a prepared report on the use of non-grain feeds and silages in France

> "The Socialist Government has indicated interest in increasing French agricultural exports and reducing the dependence on agricultural imports. It is difficult to evaluate what type of changes in French and EEC agricultural policies would be required to accomplish this objective without creating serious consequences for the present patterns of world agricultural trade."

Consequently, we must continue to resist the imposition of artificial barriers to expanded international trade and move forward with the purpose of expanding U.S. agricultural exports. There are many reasons we continue our efforts to achieve this objective, the most important of which are: (1) to assure a realistic income return to producers on the basis of production and management investment; (2) to realize the return from these farm exports as a significantly positive factor in the current balance of trade situation; (3) to reaffirm that the United States is the preponderant source and a reliable supplier of major agricultural commodities at any time throughout any year; and (4) to utilize efficiently our uniquely valuable resources to meet the growing demand for the food and feed needs of the world.

STATEMENT OF

WILLIAM H. TAYLOR, PRESIDENT OF THE
OIL, CHEMICAL AND ATOMIC WORKERS INTERNATIONAL UNION CORN COUNCIL
AND THE
INTER-UNION WET CORN MILLING COUNCIL, AFL-CIO

BEFORE THE

SUBCOMMITTEE ON ENERGY, NUCLEAR PROLIFERATION AND GOVERNMENT PROCESSES

OF THE

SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

October 16, 1981

Economic Impact of Expanding Processed Product Share of U. S. Agricultural Exports

We in organized labor are seriously concerned over the extent to which the United States, although a highly in industrialized nation, is becoming a raw material supplier to the world.

Our concern should be understandable. When raw materials -- wheat, corn, soybeans, aluminum, copper and other renewable and non-renewable resources are moved "offshore" for conversion to finished goods and, in many cases, resale into the U. S. and other world markets, it means we are exporting job opportunities. We are helping create processing jobs in other countries at the expense of lost jobs here.

But we are not alone in this concern. Both industry and government have been recognizing that we are not only losing jobs, we are losing the added value to our entire economy that flows from domestic processing.

Sizable potential economic benefits are associated with having a greater proportion of our exports processed or finished "at home".

For example, wheat is one of the major foreign exchange earners for the United States. But if even ten percent of the amount of wheat we now export were exported, instead, as flour produced from that wheat, it would create $5,635 billion more business activity in this country, provide an additional 122,400 jobs, and increase personal income here by $1.217 billion.

At present average rates of corporate and personal income taxes, that expanded domestic economic activity would in turn generate an additional $287,000.000.00 in federal tax revenue.

The same thinq is true for corn, soybeans, and other agricultural commodities now being exported primarily as raw material.

We are exporting around $8.700 billion worth of corn this fiscal year.

If even an additional 10 percent of that corn was processed into wet corn milling industry products for export, it would generate $7.734 billion more business activity, creating 165,300 more jobs and increasing personal income by $1.713 billion.

The U. S. exported $5.9 billion worth of soybeans in 1980. If means were found to export only 10 percent of those soybeans in the form of processed products, the net gain in additional tax revenues alone would be $70.1 million -- entirely aside from the benefits of increased business activity, increased personal income bringing about that additional tax revenue to the government.

The obvious conclusion is that the government could not only afford to provide various financial incentives for increasing export of "value added" processed products; it most likely cannot afford not to.

In highly specialized economies such as characterizes the United States, Japan, and the E.E.C., there are numerous stages of production involved in delivering a product to the ultimate consumer. Numerous industries sell the majority of their output to other industries rather than to final markets. This intermediate demand represents a sizable portion of the total economic activity. U. S. inter-industry transactions represent more than 50 percent of the total dollar value transactions.

Thus, the activity of one industry may depend heavily upon the activities of other industries. Like the ripples from a stone thrown in a pond (primary demand), the secondary demands ripple out through the U. S. economy creating economic activity, jobs, and tax revenue for the government. The more processing of raw materials into finished or semi-finished goods which is done "at home", the more the economic benefits remain at home, the broader the economic benefit is distributed geographically, and the stronger our nation's industrial and technological base remains.

When the processing of raw materials to finished goods is done offshore, the processing economic benefits are lost to the U. S. economy and that loss is disproportionately greater because the economic stimulus of processing is much greater than that created by the raw material, both quantitatively and geographically.

No country better recognizes the economic benefits which result from processing raw materials to finished goods and reselling them to world markets than Japan.

Japan must import 99.8 percent of its oil and most of the raw materials required in their finished goods. Yet, despite a $54 billion oil bill, last year's trade deficit was $7.0

billion and a trade surplus of $6.5 billion is projected this year.

They pursue and capture world markets with a single-minded concerted effort of all their institutions -- industrial, social, financial, and political. The result is that the U. S. has lost its dominance in such basic industries as automobiles, television, textiles, steel, calculators, and shipbuilding.

Other industrial countries have also been alert to the necessity of building sound economic growth by encouraging export of manufactured and processed products instead of raw materials -- processing their own or imported raw materials into products of additional value for export so they can generate greater business activity within their own country, creating greater employment and greater personal income as a broader base for government revenues.

Brazil has become another classical example. With a GNP of more than $200 billion, Brazil is the world's ninth largest economic power. When it was plagued by seemingly unsolvable economic problems -- soaring inflation, chronic deficits in its balance of payments and balance of trade, they faced two options. They had to either adopt strict controls of such economic variables as inflation and balance of trade deficits, or continue with economic growth so indispensable to the creation of new jobs and meeting the needs and aspirations of the Brazilian people. The second option was chosen, and to keep the country's economy moving forward, the government has placed greatest importance on continued export growth. And by the incentive policies and credit policies provided to achieve that goal, they have shown they fully understand the greater multiplier effect on their own economy of encouraging export of value added products rather than raw materials.

France has done, and is doing, the same thing. They have learned they can expand economic growth by providing concessional financing for export of value added products, because of the additional business activity it generates, the additional jobs it creates, and the additional personal income it generates -- broadening the base of government revenue to more than offset the cost of such export incentive programs.

The United States seems to be the last to learn this growing awareness of how to profit best out of international trade.

MAXIMIZING OUR AGRICULTURAL ADVANTAGE

One of America's greatest assets is its agriabundance. It is only appropriate that we capitalize upon this asset to insure that the maximum economic benefit is being generated to the U. S. economy.

Agricultural exports are vital to the economic health of this nation. More than one-third of our cropland moves into export channels. Agricultural exports are expected to total $46 billion in 1981 and, as such, are a vital factor in reducing the foreign trade deficit. An estimated 1.1 million full-time civilian jobs are related to agricultural exports. These benefits to the economy have accrued despite the fact that a major portion of the exports have been in the form of raw commodities.

The question then arises as to whether or not America's full competitive advantage is being realized.

Have we fully exploited this advantage in the best interest of the U. S. economy?

What additional benefits accrue to the economy from processed agriproducts versus their raw material counterparts? Can these additional benefits be quantified?

A staff report published by the National Economics Division, Economic Statistics Service, U. S. Department of Agriculture, entitled "Expanding the Processed Product Share of U. S. Agricultural Exports" quantifies the national economic benefits of raw versus processed product exports.

Table I taken from that report measures the economic activity created by a $1 million export sale of raw commodity and the economic activity generated if that $1 million of raw commodity were exported as an equivalent amount of processed products.

TABLE I. NATIONAL NET EFFECTS OF RAW VERSUS PROCESSED EXPORTS*

	GROSS OUTPUT			GROSS EMPLOYMENT			PERSONAL INCOME		
	Raw Product	Processed Product	Net Change	Raw Product	Processed Product	Net Change	Raw Product	Processed Product	Net Change
	Million Dollars				Workers		Million Dollars		
Flour for wheat	5.42	14.26	8.84	143	335	192	1.54	3.45	1.91
Dressed poultry for corn	5.32	50.22	44.90	147	1,300	1,153	1.40	10.69	9.29
Soybean oilmill products for soybeans	5.21	8.00	2.79	135	183	48	1.48	1.91	.43
Cottonseed mill products for cottonseed	5.61	13.28	7.67	209	372	163	1.36	2.96	1.60
Wet corn milling products for corn	5.32	14.21	8.89	147	337	190	1.40	3.37	1.97

*Based on million dollars in sales of raw commodity exports and equivalent amount of processed product.

WHEAT VERSUS FLOUR - AS A MODEL FOR VALUE ADDED CONCEPTS

A $1 million export sale of wheat generates a total economic activity of $5.42 million of which $1.54 million is personal income. The sale also creates 143 job equivalents.

If that $1 million wheat were exported as "value added" flour, a total economic activity of $14.26 million of which $3.45 million is personal income, and 335 job equivalents are created.

The "value added" flour creates an additional $8.84 million in business activity, of which $1.91 million is additional personal income. Also, an additional 192 job equivalents are created.

When wheat sales are lost to foreign competition, $5.42 million of economic activity is lost and 143 job equivalents. As flour, the loss is $14.26 million to the economy and 335 job equivalents.

When that wheat is exported for milling "offshore", the economy loses a potential $8.84 million in economic activity and 192 job equivalents.

EXPORT SALES BENEFIT THE TREASURY - WHEAT/FLOUR MODEL

As the impact of export sales "ripple" through the economy, the benefits are ultimately reaped by the government in the form of Federal taxes.

The U. S. average corporate tax paid as a percent of gross output for grain milled products is 2.17 percent. *(1)

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*(1) Source: National Economics Division, Economics and Statistics Service, U.S.D.A.

The personal income tax average is 15.7 percent of gross income.

Carrying the economic and social effects of exporting more processed products rather than just raw materials a step further than the increased business activity, increased jobs, and increased personal income in the private sector, the following table reflects what it could mean in potential increased revenue to the government itself:

TABLE II FEDERAL TAX FROM $1 MILLION WHEAT VERSUS $1 MILLION WHEAT AS FLOUR

	WHEAT	FLOUR	VARIANCE
Total Gross Output	$5.42 million	$14.26 million	$8.84 million
a). Corporate Output	$[illegible].88 million	$10.81 million	$6.93 million
b). Personal Income	$1.54 million	$3.45 million	$1.91 million
Corporate Tax (@2.17%)	$84 thousand	$235 thousand	$151 thousand
Personal Tax (@15.7%)	$242 thousand	$542 thousand	$300 thousand
Total Tax	$326 thousand	$777 thousand	$451 thousand

The taxes generated by a $1 million export sale of wheat is $326 thousand (32.6% of the sale value); but it is $777 thousand from its equivalent as flour.

CONVERSION OF WHEAT EQUIVALENTS INTO FLOUR

It requires 2.3 bushels of wheat to produce 1 cwt. of flour. With wheat at $4.50 per bushel FOB Gulf, a realistic export flour sale price would be $12.00 cwt.FAS Gulf. Thus, $1 million of wheat @ $4.50 per bushel equals 222,222 bushels of wheat. (222,222 bushels ÷ 2.3 ÷ 96,618 cwt. of flour; 96,618 cwt. of flour at $12.00 cwt. constitutes a $1.159 million sale)

Thus, a $1 million sale of wheat constitutes a $1.159 million sale of wheat equivalents as flour.

The taxes generated by $1.159 million of flour is $777 thousand or 67 percent of the sale value of the flour. This compares with the tax return of 32.6 percent of the sale value of wheat.

TABLE III SUMMARY OF WHEAT VS. FLOUR EXPORTS

	WHEAT	FLOUR EQUIVALENT
1. Export Sale Value	$1 million	$1.159 million
2. Sale Price	$4.50 bu	$12.00 cwt
3. Quantity	222,222 bu	96,618 cwt
4. Total Tax Return	$326 thousand	$777 thousand
5. Tax Return (% of Sale Value)	32.6%	67%
6. Tax Return per Bu or Cwt. (Item 4 ÷ 3)	$1.467 bu	$8.042 cwt

From every standpoint -- the additional business activity, additional jobs, and additional personal income as reflected in Table I, and the additional tax revenue to the government as reflected in Tables II and III -- the social and economic advantages of promoting export of "value added" processed product over continued emphasis on export of raw materials appear obvious.

It also becomes obvious that the country that can market processed products has far more to gain than the country that just exports raw materials.

It is small wonder our foreign industrial competitors would seek U. S. raw materials for conversion into processed goods for resale into world markets; that they would establish restrictive trade barriers to inhibit the flow of U. S. processed goods into their countries to protect their industries; that they would subsidize and offer easy credit to export finished goods.

And that is just what has been happening -- to the detriment of the U. S. economy, to the detriment of our gross national product, and to the detriment of the American workforce.

WHAT CAN BE DONE

We think this situation can and must be changed, but it will require some change in traditional thinking.

For several decades, the major emphasis of U. S. agricultural policy has been oriented toward the basic raw commodities such as wheat, feedgrains, soybeans, and cotton. While market development of these commodities should continue, a new dimension should be added if we are to maximize the economic benefits of our agriabundance -- the objective of increasing exports of even more of these basic commodities in processed form. It is a matter of sound economics, in the national interest.

We can start with any bilateral food marketing or sales agreements our government negotiates, such as the sales to Russia or China. We can use the same principle in negotiated PL 480 sales agreements, and in the type of commodities we provide under food aid programs.

An integrated economic strategy must be developed which maximizes the return in economic benefits. Such a strategy will insure that economic benefits are generated by both raw and processed products, and not simply our raw materials.

For such an economic strategy, a thorough understanding of "added value" concepts, multipliers, and tax coefficients as they measure impact on the U. S. economy must be developed by U. S. decision makers -- in organized labor, in industry, in the executive branch of our government, and perhaps most important of all, in the Congress.

Measuring economic impact must become an integral part of our economic thinking and a top priority in the decision making process of foreign policy.

So that we can effectively measure economic impact,economic impact multipliers should be developed for all of the agri-raw materials and their processed and semi-processed counterparts. The tax revenue generated should also be identified. A good start has been made by economists in USDA, and they should be encouraged to continue. Perhaps Congress could contribute further toward this effort through a study by the Joint Economic Committee.

Once these multipliers and tax coefficients have been established and accepted, they should become an integral tool in foreign trade policy decisions, for they will measure quantitatively the impact a particular policy decision would have upon the U. S. economy and its geographical components.

Foreign trade is a "two-way street". American labor and American business deserves to be treated fairly in international trade. This is not the case when trade barriers restrict our access to processed commodity markets, and turn us increasingly into just a raw material supplier. Unfair competitive practices which deny us access to a fair share of world markets must be dealt with. The economic multipliers provide a valuable tool for the development of an action policy serving our national interest. It is not anti-"Free Trade"; it is just pro-"Fair Trade".

CONCLUSION

The U. S. ranked last in productivity growth among the major industrial nations in the past decade. Our plant and equipment is older than Japan and West Germany. This trend must be reversed for the sake of and strength of the nation. That strength is generated by reestablishing a strong, competitive export program.

President Reagan, in his economic address of February 18, 1981, said, "It is time to create new jobs, to build and rebuild industry, and give the American people room for what they do best" - in order, as the President later put it, "to make America competitive once again in world markets."

Agriproduction and agriprocessing are "what we do best" and, as such, are ideal springboards from which to establish, once again, a competitive position in world trade.

Because we share the objectives I have outlined -- and believe they are in the best interest of the nation, a large number of international unions belonging to the Industrial Union Department of the AFL-CIO plan joining hands with industry groups -- corn refiners, flour millers, soybean processors -- in establishing an export processing industry coalition.

Together, we plan a year-long educational and legislative campaign toward achieving these objectives. Mr. Chairman, because of the interest you have shown, as reflected in these hearings, we are informing you in advance about this proposed coalition. We will welcome your continuing interest and support, along with other members of your important committee. We urge your help in interesting other committees of the Congress in this "value added" export policy effort.

In view of their goal -- and the urgent necessity -- of stimulating expansion of our economy, we hope the Administration will seriously study the potential opportunities of this value added concept. We would welcome your encouragement of the Administration to do so.

Thank you, Mr. Chairman.

Senator PERCY. Our next panel will be, if you could come up, please, Dr. Stephen Schmidt, Sheldon Hauck, Jerry Gates, and Allan Aves. And can I recognize in the audience, on my right, Dr. Orville Bentley, dean of the College of Agriculture, of the University of Illinois. Dean Bentley, would you please stand up? Thank you very much indeed. A round of applause for you. Representing Governor Thompson here today is John Rowley, assistant director of the Illinois Department of Agriculture. Right here. Thank you very much, John.

Our first witness will be Dr. Stephen Schmidt, professor of agricultural marketing and policy, who will provide us with a historical perspective on oil seed exports to the European Community. Dr. Schmidt.

TESTIMONY OF DR. STEPHEN C. SCHMIDT, PROFESSOR OF AGRICULTURAL MARKETING AND POLICY, UNIVERSITY OF ILLINOIS-URBANA, COLLEGE OF AGRICULTURE, URBANA, ILL.; SHELDON HAUCK, PRESIDENT, NATIONAL SOYBEAN PROCESSORS ASSOCIATION, WASHINGTON, D.C.; ALLAN D. AVES, BOARD MEMBER AND IMMEDIATE PAST CHAIRMAN, AMERICAN SOYBEAN ASSOCIATION, AND PRESIDENT, DEKALB COUNTY FARM BUREAU, KIRKLAND, ILL.; AND JERRY GATES, PRESIDENT, LAND OF LINCOLN SOYBEAN ASSOCIATION, TAMAROA, ILL.

Mr. SCHMIDT. Senator Percy, it's a pleasure to participate in this panel and share my observations which are based in part on my own ongoing research. We rarely have an opportunity to make use of our research work and findings, in the resolution of public policy issues, aside from sharing them with fellow colleagues. When we look at the Community, one can observe very impressive achievements. It is the world's largest importer of agricultural commodities and, most surprisingly, it is the world's second largest exporter of farm commodities. Our particular concern here is that the Community is buying about 53 percent of world soybean meal imports and takes about 40 percent of world soybean imports. Also, the Community is an exporter of soybean meal. And, if we compare these trade figures with U.S. export volumes we find that the Community is buying about 44 percent of U.S. soybeans, 53 percent of U.S. soybean meal, and some 62 percent of U.S. sunflower seed entering international markets. Now, if we look at the situation from the Community's side we find that U.S. supplies over 80 percent of the Community's soybean imports and about 40 percent of its soybean meal imports. Considering the importance of this trade both to the United States and to the Community one really gets concerned. What would happen if the Community would adopt a restrictive policy, particularly in view of its enlargement, including Spain and Portugal, in addition to Greece. The main intention here is, I think, on the part of the Community, to raise revenue. The cost of the Common Agricultural Policy is exorbitant. The Community is spending about $16.9 billion a year to maintain this policy. This represents about 72 percent of the Community's total budget. Now, let's see how this budget is allocated. Well, the Community is spending about $6.2 billion on export subsidies alone, and this is an issue which the hearing is going to bring out. This shows how the Community is competing in the world market, and what resources are being used. This is a large amount of money spent on the subsidization of exports.

The second big concern here is that dairy subsidies are getting out of hand. They are spending some $5.1 billion just to support the dairy industry. So, when we hear about pressures and plans for the imposition of a vegetable oil tax the underlying reasons are export subsidies and dairy subsidies.

Now, the feeling here is that, to eliminate these subsidies, the Community must simply reduce the competitive advantage of margarine against butter and thereby increase butter consumption. That is, the intent is to increase dairy product consumption at the expense of vegetable oil consumption. Now, the flaw of this logic is that margarine and butter are not very substitutable, at least not in the European consumer's mind. And studies show that there is a very little response on the part of the consumers to adjust consumption if prices are changed. As economists, we use the notion of elasticity. An elasticity figure of −0.3 was obtained, which provides an indication how Europeans respond to price changes. Now, what does this −0.3 figure mean. Let's say that if the butter price would be reduced by 1 percent consumption would increase merely by 0.3 percent or by less than one-third. Likewise, the responsiveness of the European consumer to changes in the price of margarine on consumption would be small. Consequently raising margarine prices through a tax on vegetable oils would leave little impact on comsumption. Hence, a very stiff tax on vegetable oil would be needed to bring about an increase in butter consumption sufficiently large to reduce existing butter surpluses in the Community. A tax of this magnitude would likely be politically unacceptable. So, I think the main reason behind the tax is not so much to affect domestic consumption, but to raise revenue in order to supplement the budget.

Senator PERCY. Thank you very much indeed, Dr. Schmidt. I'd like to make an announcement. We have just learned after you prepared your excellent testimony that the European Economic

Community has deferred any action on imposing a consumer tax on oils, which would have certainly injured our soybean exports. This action is viewed as a victory for Secretary Block, who spoke out firmly against this action. So, we are already making progress. The Europeans have been very interested, and concerned about this hearing. Members of the Agriculture Committee have said it's important that the Governmental Affairs Committee, supplemented by and backed up by the Agriculture Committee hold this hearing because the committee is always looked upon as speaking for a particular constituency. Whereas, the Governmental Affairs Committee has the oversight responsibility for the organization, and, indeed, the entire executive branch of the Federal Government. We are very pleased that our continuing work with Secretary Block is starting to show some real progress now.

Our next witness, Sheldon Hauck, president of the National Soybean Processors Association, is with us today from Washington, D.C., to lay out for us the difficulties that U.S. soybean processors are encountering with Spain. A native of Illinois, Mr. Hauck practiced law in Chicago prior to joining the NSPA. He has an impressive background, in tariff issues, particularly relating to soybean processing and exports.

Mr. HAUCK. Thank you, Senator. I think I will try and stay off the statistics a bit and try and share with you and the audience some conceptual ideas of the implications of issues we are trying to address today. The National Soybean Processors, just to set the stage, utilize over half the production in the United States, which last year was a little bit over 1 billion bushels. As such, we are the largest soybean customer of farmers, and we share a great mutuality in interest in the subjects that are before you today. Your staff assistant, Mr. Howard S. Marks has asked that I try and address the GATT question, the GATT case with Spain, which I will do.

In a broader context, the issue here is really not the Spanish case, but it's preservation of access of U.S. meal and soybean exports into the European Community, a $4 billion market out of almost $9 million of agricultural experts to the European Community. That's the real issue. And I think, for the record, we should note that, at the time those duty-free bindings were negotiated, the United States made concessions to the European Community in return for this access to the European Community. We paid for these bindings. We have honored our obligations as to the trade concessions they received from the United States, and I think we should not only ask, but demand, and insist, that these bindings remain unimpaired. The European Economic Community, as Dr. Schmidt pointed out, is at a breaking point in its budget and agricultural policy through heavy subsidies. It's their own fault. But, in the process, there is only one place they can go, and that is into the agricultural sector and restriction of the imports of products from the United States. We are being asked, American farmers and consumers, to pay for European social policies. I think the most important thing you and the administration and other sectors of our Government can do is to start sending stronger signals to the European Community and other trade partners around the world, that we insist on maintaining our obligations and access to markets that we are committed to free trade. The soybean industry particularly is not subsidized, our exports are not subsidized. The building of plants and refineries are not subsidized. It's totally free trade. We don't have soybeans in storage. The only assistance of substance we get from the Government is through the market development programs, which are proven to produce a return on the dollar. These are administered through the American Soybean Association and the Foreign Agriculture Service and have opened new markets and spread over the past several years.

I think the problem is, if we look at the front page, Japan is limiting automobile imports to the United States. That crisis saw Ambassador Brock and others from our administration, negotiating with the Japanese to work an accommodation during the time of the Medfly crisis most recently. Almost immediately after it surfaced, there were high level U.S. delegations to negotiate with Japan an accommodation on the problems there.

We haven't seen this in the soybean case. I don't think we have brought to the Nation or the administration's attention the level of consciousness that should be in everyone's mind as to the importance of this market. We need to send signals, new signals, and stronger signals. They have been coming most recently in statements of Secretary Block and Ambassador Brock and others in the administration. We suggest that the Spanish case that is coming for hearing on November 3 provides an early and quick opportunity for the United States, in effect, to put our money where our mouth is.

The United States is possessed of the ability to veto the adoption of this panel report if they choose to do so, and I would think, if negotiations that are currently underway in other capitals of the world to elicit support for the U.S. position are unsatisfactory, to prevent the adoption of this report. The United States should in fact exercise its veto power in the Council of Ministers. And it's important, I think, also, that this issue be resolved, quickly, to send a signal to all of those who are interested in impairing or eroding trade advantages that the United States enjoys around the world. Austria has announced that they intend to impose import barriers on the importation of soybean meal, citing the Spanish case as a reason.

But, in the event my time runs out, let me finish the Spanish case quickly. If this isn't resolved in a satisfactory manner, it will give the Europeans the perfect excuse to impair the bindings. If the Spanish system limiting domestic consumption of soybean oil is allowed to stand as an acceptable practice, all of the nations in Europe and in the Community will feel free then to adopt similar restrictions, using this case as precedent.

You have mentioned yourself the new export subsidy programs and their expansion in Europe to reach other areas of the world where our traditional markets have been. I would think—and we would think, those who share this view, that we have to work stronger and harder at all levels of our government. I think the attention you bring to Illinois, the home of soybean processing, is good. The first plant was in Champaign, as a matter of fact, many years ago. The world center is in Decatur, as you know. We are delighted to know that Senator Helms is considering holding hearings in Washington soon also. Thank you.

Senator PERCY. Well, I want to clarify my conflict of interest in being a member of the Soybean Association. My wife's farm in Illinois has been in her family since 1841, when they came to Henry, Ill., and since then, the value of most farms have almost doubled. They paid $1 an acre in those days, and it's just about doubled since then. But I would say soybeans have been probably, with all due respect to corn and so forth, soybeans have been the absolute epitome of the free market. And through the years, although I can remember $10 acre prices—and we are a long way from that now—they have been rising, pricing has been good, and production has been matched by market conditions. It's a total opposite of the peanut industry, which I think is an absolute disgrace.

With us also is Allan Aves, board member and immediate past chairman of the American Soybean Association, who also served as chairman of the American Soybean Market Foundation. An outstanding DeKalb County farmer himself and chairman of his own county farm bureau, he will speak on the need for giving a high priority to soybean trade issues.

Mr. AVES. Thank you, Senator.

Before I go to my text, I would like to make just a couple of comments on my own. I am here to testify not for the American Soybean Association, but just as a farmer from Illinois. And, first of all, I would like to express my appreciation to you, Mr. Senator, for your recognition and concern over these items that are on the agenda. Your reaction to these issues are very important to farmers. We are extremely concerned over our export ability for the countries, their accessibility to these other countries. We as farmers produce about as much as you want. Probably, with a doubling of the prices of our grain, we could double our production. You say, where is it going to come from, but I will do my part to produce more, if I can get twice as much, and I think so will everyone else who is a farmer. So, I do appreciate your concern and your immediate reaction to this.

Another comment I would make just very briefly is, part of Mr. Taylor's comment about the value added products. I think that there is a very, very important area here that we have not even attempted to do, to sell into these other countries. I think we need to—I remember a meeting I was at here about 5 years ago in Champaign. I don't remember just what year it was. Some of your people in the audience probably were at the same meeting, at which a person from Washington, I believe he was with the Agricultural Department. He may be a familiar name to you, Senator. He made the statement, he was reading from a text, and in his statement he said that, through history, countries who exported their raw materials, rather than value added products, ended up as a weak country. Well, I got a copy of his text, thinking that, boy, I'd like to see this down in writing, because I think he even quoted where he had gotten this from in history. But he had only spoken off the top of his head on the thing, so there is no way you could commit him to this statement, but I think probably, if you compare this to Japan, Japan of course is completely dependent on products, and you can see how they have advanced, how they have done, in the world markets. And I think that we need to also recognize the value of value added products. So, with that, I will get back to my text. I appreciate that time.

I am Allan Aves, a farmer from Kirkland, Ill., where I produce soybeans, corn, and hogs. I am here today in my capacity as immediate past chairman of the Board of American Soybean Association. We very much appreciate your having this hearing in the Nation's largest soybean producing State, to seek public comment on three major foreign trade concerns of American soybean producers, specifically I refer to the internal vegetable oil consumption quota of Spain, the threat of the European Communities to place a tax on vegetable oils, and the European Communities' consideration of import quota on corn gluten feed. As a representative of the Nation's soybean producers, I will confine my remarks to the first two threats to the American farmers.

Exports are the lifeblood of the American soybean industry. In 1980, American soybean producers saw over 55 percent of their production exported at a value of $8.6 billion, the largest of any commodity and fully 20 percent of total U.S. agricultural exports. Strong exports markets are essential to the prosperity of our industry, and we believe maintenance and expansion of soybean exports should be a high priority to the U.S. Government.

Unfortunately, we stand to lose much of our export market for soybeans because of protectionism on the part of Spain and the European Community, and what we perceive to have been a lack of commitment on the part of the U.S. Government to countering that protectionism. We hope that this hearing will call attention to the threats of our industry and spur invigorated efforts on the part of the U.S. Government to stave off those threats. Spain is using discriminatory and illegal internal consumption quotas to force the subsidized exports of over 400,000 metric tons of soybeans produced in Spain from soybeans imported largely from the United States. Rather than allow the soybean oil to fairly compete with the Spanish olive oil, the Spanish have chosen to adopt the protectionist quotas and provide processors with subsidies that have allowed Spanish soybean oil to take away large soybean oil markets in North Africa and elsewhere. Coupled with the subsidized soybean oil exports from Brazil, the Spanish soybean oil exports have greatly reduced the U.S. soybean exports and have resulted in substantial losses to American farmers.

As you are well aware, Chairman Percy, the United States filed a formal complaint against the Spanish oil quotas in GATT in 1980, but in one of the most unfathomable decisions of that body, a GATT panel ruled against the United States in December 1980. Unless that highly questionable GATT panel decision is reversed by the full GATT council, the precedent could allow other nations or the European Community to adopt similar quotas in order to protect their inefficient domestic vegetable oil industries. With Spain expected to accede to the European Community later in this decade, it is especially critical that the GATT panel decision be reversed, or there is every likelihood that the European Community will adopt a similar policy.

Aside from repurcussions of the Spanish oil case, we face a more immediate threat to our soybean exports to the European Community in the form of a vegetable oil tax under consideration by the

European Community Agriculture Council. In 1962, during the Dillon round of multilateral trade negotiations, the United States negotiated a zero GATT binding on soybean and soybean products. That concession was bought and paid for with concessions by the United States. Put simply, the zero binding means that the European Community cannot impose duties or levies against U.S. soybean and products without violating its GATT commitments and incurring retaliation by the United States. We believe a tax on vegetable oils by the European Community would violate the spirit as well as the letter of the zero binding.

It is important to stress the enormous stake U.S. soybean producers, and the Nation in general, have in exports of soybeans and products to the European Community. When the European Community zero binding was negotiated in 1962, U.S. soybean and product exports to the European Community totaled less than $100 million. With the open trade door provided by the zero binding, and an aggressive farmer-financed export promotion program, in cooperation with Foreign Agricultural Service, U.S. soybean farmers have seen the European Community grow to become their largest customer. Since 1969, U.S. soybean farmers, FAS, and the soybean industry have invested over $25 million in our market development effort. U.S. soybean and product exports to the European Community in 1980 totaled $3.8 million, the largest to any region and about 40 percent of our total exports. The huge increase came because European feed manufacturers found they could purchase levy-free soybean meal, mix it with levy-free cassava and other nongrain ingredients, and produce a feed equal in value to that made totally from European Community grains, but at a much lower price. As the internal price level of the European Community increased over the years, U.S. soybean-based feeds have become increasingly competitive.

Unfortunately for us, many in the European Community, particularly the French, have begun to blame escalating soybean imports as the greatest cause for the fantastic escalation in the cost of the European Community's Common Agricultural Policy. They claim that the lower priced soybean-based feeds have stimulated excessive production of milk in northern Europe and resulted in surplus buildup of butter and dried milk powder.

Senator PERCY. Your 5 minutes have elapsed; would it be possible to conclude your comments and put the rest in the record? Our problem is time. Our guests from Washington have to get back on a plane. That means they have to leave here no later than 11:30 a.m.

Mr. AVES. I am sorry. Just briefly stating, we are very much concerned with the consumption quotas and the possibility of the tax in Europe, and I will be happy to answer any question.

Senator PERCY. Thank you very kindly. Our final witness in this panel is our own Jerry Gates, president of Land of Lincoln Soybean Association. Mr. Gates, a farmer from Tamaroa, has also given very distinguished service to the Prairie County Farm Bureau and is director of his local soil and water conservation district. Mr. Gates.

Mr. GATES. Thank you, Mr. Percy. In lieu of time, I am going to cut my remarks exceedingly short. I think all of the preceding speakers have pretty well layed out our feeling on this thing. I am a farmer, full time farmer, of Tamaroa, Ill., where I raise soybeans, corn, and hogs. At the present time, we are right in the middle of harvest. I appear today as president of the board of directors of the Land of Lincoln Soybean Association, and this association is a nonprofit and volunteer soybean producer controlled commodity association, organized to assure the opportunity for profitable soybean production. I might comment again, we are pleased to have you as a member of our soybean organization.

As I say, I'm not going to lay out our feeling on this. I think they have done a good job of this. What we are asking for—we are not asking for any special concessions or for reduction in competition for—reduction in competition. We feel that Illinois soybean farmers can compete, if we are provided the framework to do so on a fair and equal basis. And we feel, if our request on this trade issue is pursued, that Illinois farmers can reap the harvest of expanded market opportunities. Illinois consumers can reap the harvest of better and relatively less expensive food. Our workers, that of more stable jobs, and our Government can reap the harvest of increased tax income from farmers and related industries, and the whole Nation can reap the harvest from increased international sales.

So, we urge that trade issues receive the attention of the highest levels of our U.S. Government so that they may be quickly resolved to allow Illinois producers access to our world markets, and we do appreciate the concern of the highest level. Thank you.

Senator PERCY. Thank you, Mr. Gates, very much indeed.

Dr. Schmidt, what will be the effect on the trade opportunities for the Illinois farming community if the European Community is enlarged in addition to Greece to include Spain and Portugal? And I might add that I hosted the King of Spain for lunch the day before yesterday, in the U.S. Senate, along with the distinguished Foreign Minister and Ambassador. I expressed gratitude for placing the first export orders by any European country ever in the history of Illinois, for $5½ million of Illinois sulfur coal, and the first of many countries that are going to be placing export orders with Illinois. But I'm going to go right back at them on this issue. But they will become, without any question, I think, members of the Common Market, and I think probably Portugal. What effect will that have on us?

Mr. SCHMIDT. Well, if we take a look at Greece, the effect is minimal. The equals of these are corn. Joining the Community, they are not able to get that corn. They might substitute some wheat and barley, which is produced in the Community, and surplus to wheat, but otherwise, I don't see any major effect. If we enlarge our concern to fruits, vegetables, then there is some shortfall going to be in U.S. exports. Greece is having citrus fruits in surplus, which can be in the Community and could affect U.S. exports. Greece produced tobaccos, which are not very much in demand in the Community or in reaching a saturation level, so it is no concern. Cotton is not in our produce, so I would say that the effect of—well, Greece will not be significant on U.S. exports.

We can expect the Spain situation, of course, as this hearing is stating, it all depends on what kind of arrangement is going to be made, and with Spain's accession, and to what extent the question of vegetable fats and Spain's quotas on soybean consumption is going to result. Spain has the capacity to increase production. The yields are very low. They could increase corn production, given proper incentive and cultivation methods. But this is a long standing proposition, and I would not expect that, at least not in this decade, that U.S. exports of grain would be significantly affected. We expect soybeans—as I said, the question is open and needs to be resolved.

Senator PERCY. Thank you very much, Dr. Schmidt.

Mr. Hauck, we have coming before us in the next panel two top level policy and decision makers in both the Department of Agriculture and the U.S. Trade Representative's Office. Both of them are headed by outstanding leaders, Secretary John Block, of Illinois, U.S. Department of Agriculture, and my former colleague in the Senate, Bill Brock, respectively. We have intimate working relationships. Whatever differences of opinion may exist, I absolutely know we will be able to work out a solution.

But I would like to sharpen some of the things that you have said. Did you agree with the decision of the U.S. Trade Representative to bring the complaint before GATT?

Mr. HAUCK. Yes. We urged action by the Trade Representative and the Department of Agriculture for some time. There is a technical point here. I don't know how much to make of it. We were not appraised that they were, in fact, going to file a complaint. We learned of it only after the fact. It was one of a whole host of items we had put on the table. Brazil and Argentina were higher on our list of priorities at the time, but, in the spring of 1980, it was a unilateral decision, which we could hardly take issue with, of trying to attack a major problem in our export trade.

Senator PERCY. As I understand it, the National Soybean Processors Association made a specific offer to be of assistance to its government in preparing the case. As I understand it, the help was not accepted; there was no real contact made or consultation. Can you tell this committee why, in your judgment, and what type of help could have been offered that might have assisted and strengthened our case?

Mr. HAUCK. I think one has to start with the premise that the U.S. Trade Representative's Office is the general counsel, if you will, for industries that have concerns with trade matters. We don't have resources outside of the Government to attack or confront these issues. They try and have to say grace over a lot of subjects. They do rely on, or are supposed to, on the Department of Agriculture for expertise and staff support. But I would think it would be a fair statement that the industries involved probably can provide the best expertise, as to the economics of the industry, the international trade, the effect and impact of the practices complained of. We had, and still have, some problem with effective communication and dialog with that particular office.

Putting it in additional perspective, after the decision of the panel was announced last December 4, all of those in a position of authority or responsibility on the case, both in Agriculture and in USTR, had résumés out, if you know what I mean, and there was about a 2-month hiatus where little happened in the way of immediate follow-up. And then, with the new administration and the new people in place, the educational process started over again. And we all know that Secretary Block and Ambassador Brock had concerns with the Japanese auto import question; lifting the embargo with the Russians and a whole host of other things, preparation of the farm bill, and so forth. And there was a long period of suspension, if you will, and I think part of the reason was—we deliberately took a low profile. But I think our opinion has changed considerably, but we are now going to be a squeeky wheel and try to maintain that position, with your help and Senator Helms and others.

Senator PERCY. We will hear from our representatives in GATT on the trade issue. What we intend to do in the future, and what lobbying efforts we did not make in the past, we are going to make up. As chairman of the Foreign Relations Committee and I'm going to try to contact every single one of those countries that will cast a vote on this issue, and they are going to know in unmistakable terms how we stand, because this is a matter of principle. If this principle of protectionism is allowed to exist, it will spread throughout the world, and we simply can't tolerate that in agriculture. We operate on a free and open market and have observed that consistently since 1953. We are going to stick with it. We want the rest of the world to stick with it too.

Mr. HAUCK. Senator, let me just add, that kind of activity and participation is needed, because when you really cut through all the smoke, it's a political issue, and the European Economic Community lobbies are in Geneva. I think that commitments by you those communications by you and your friends with other countries and Ambassadors will do more than two volumes of briefs toward an eventual outcome on this subject.

Senator PERCY. Let me ask a question about our friends in Spain. Is there a Spanish limit on the size of the container the soybean oil is actually sold in and, if so, is there any limit on olive oil or sunflower oil containers?

Mr. HAUCK. No; the limitiations in Spain are for domestic retail consumption or 1-liter containers or jars similar to the size of the one you are holding in front of you, which is just another——

Senator PERCY. So that is the limit, then?

Mr. HAUCK. Yes, another pebble in our shoe, if you will.

Senator PERCY. Thank you very much. Now, Mr. Aves, could you more fully explain why you perceive there is a lack of commitment by the U.S. Government to counter European protectionism?

I think we will see a change, evidenced from what the administration intends to do. But could you give us a feel for how it is perceived, at least, and what perceptions have to be changed?

Mr. AVES. I don't know if I can answer that as well as probably Sheldon could. He is much more closer to that. I am really not very familiar with why. Sheldon carried further into the disagreement over the perception to the GATT of their concern of the quotas on oil in Spain. Certainly they have a limitation, I believe of 100,000 metric tons of oil that they can use within the country, basically to support the olive oil producer, because they are protecting their farmers. Now, Sheldon, I'm going to have to let you answer why the United States has not carried further in this debate, because I really am not familiar with that.

Senator PERCY. You might also, if you can, give us an estimate of the dollar value of the losses that farmers have experienced from the Spanish quota system, coupled with the subsidized soybean oil exports from Brazil. Can either one of you give us some sort of an estimate on that?

Mr. HAUCK. I will take a crack at it. Spain exports 400,000 tons of soybean oil in third country markets today. I think, if my math is right—help me, Bill—that's what; 880 million pounds at roughly two——

Senator PERCY. You might just, for the record, give us the best computerized——

Mr. HAUCK. 858 million pounds times what, 20 cents? That comes to $17.6 million. Those are the numbers.

Senator PERCY. A billion here and a billion there, pretty soon you are talking real money.

Mr. HAUCK. In response to the question you posed to Allan, I think there is a consideration here. People talk about this, and I think we get carried away. The Spanish don't really want to push this, because we have naval bases and air bases here and there.

Well, you know, I think we pay the going rate for rent on those, and maybe the rent has to be rasied for access to the Community. I think the more fundamental problem and question in Europe and Spain is a part of that overall bigger question, and it's one I think that should concern us and we should be aware of—the European Economic Community agricultural policy is really the only tie that binds the nations of power and Community together. Currently there's no common defense policy, economic policy, political or other philosophy. I think there are many in the administration, would probably feel, in our Government, past and present, that it is important that this agricultural structure be maintained in the Community as the tie that binds, or the glue that binds, and that we have to be cautious in how fast—how hard we press that, less we fracture it.

Now, that's just an opinion. I don't know whether that's the right answer, but that's the only one we can discern. But, I don't think it means we have to be totally impotent and lay back and let them do whatever they want to do. I think we have to stand up once in a while. I think there is a balance here, I think.

Senator PERCY. Thank you very much. I'd like to put the final question to Jerry Gates. Is the average soybean farmer in Illinois concerned about this GATT case? Are they concerned abut what might happen, having seen already a dramatic sales drop, if there are further quotas enacted?

Mr. GATES. I think they are. Unfortunately, not everybody does stay up on the facts out here. I think the ones that are definitely concerned, and there are a bunch of us, are the ones who have taken part in their organizations to belong to their soybean associations, and otherwise, for agricultural groups that stayed up on the issues. Now, these people, and there are quite a few of them, and getting more all the time, fortunately these people are concerned, definitely, and I think they read the literature. People do read out here, and I think they definitely know what's going on, yes, to answer your question.

Senator PERCY. Thank you, gentlemen.

[The prepared statement of Messrs. Schmidt, Hauck, Aves, and Gates follow:]

ENLARGEMENT OF THE EUROPEAN COMMUNITY: PLANS, CONCERNS AND IMPLICATIONS

Stephen C. Schmidt*

The enlargement of the European Community (EC) to include Greece, Portugal and Spain will lead to a diversity of production conditions and the aggravation of problems currently faced by the Common Agricultural Policy (CAP). These will result in:

1. A considerable increase in the Community's production of certain fruits and vegetables (particularly tomatos and peaches), wine and olive oil which will put pressure on existing markets supplied by French and Italian producers;
2. Threat to the Community's "special relationships" with its preferential Mediterranean suppliers of fruit and vegetables by causing a distortion of these exports;
3. An increase in the level of EC agricultural self-sufficiency and consequent decline in exports of oilseeds and their products, grains, citrus fruits, vegetables and livestock products by third countries including the United States;
4. A worsening of the structural inadequacies of the Community's agriculture and widening of income disparities between the Community's northern and southern regions;
5. Increased expenditure on agricultural market support and infrastructure and consequent worsening of budget imbalances.

To deal with the agricultural problems of enlargement, the EC may attempt to:

1. Pursue restrictive import policies and launch an aggressive export promotion policy using subsidies to dispose of surpluses on world markets;
2. Reform its CAP to make it more market oriented in the grain-livestock sectors;
3. Assign a greater role to common structural policy and direct it toward reducing differences in productivity between regions;
4. Introduce a CAP for processed fruit and vegetables;
5. Promote the consumption of Mediterranean products, especially by removing taxes which dampen demand in certain member countries.

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* Professor of Agricultural Marketing and Policy, University of Illinois at Urbana-Champaign. Statement before the Committee on Governmental Affairs Subcommittee on Energy, Nuclear Proliferation and Government Processes, U.S. Senate, October 16, 1981.

Enlargement of the European Community

Greek accession and transition arrangements. Greece became the tenth member of the European Community on January 1, 1981.[1/] The main features of the accession process are (1) the progressive elimination of the customs duties on imports into Greece of products originating in the Community; (2) the progressive alignment of the Greek tariff on the Common External Tariff; (3) immediate abolishment of quantitative restrictions between Greece and the Community; (4) Greece's application of the Community's Generalized Preferences Scheme commencing with the accession; (5) adoption of Greek agriculture to the Common Agricultural Policy (CAP); (6) monetary, financial and budgetary arrangements; and (7) alignment of existing Greek state aids with those of the Community.

To ease the strains of adjustment a general transitional period of five years has been agreed. Freedom of movement of Greek workers within the enlarged Community will be achieved at the end of a seven-year transition period. Greek tariffs towards the Community will be reduced in six stages starting on January 1, 1981 with a reduction of 10 percent followed by a further reduction of 10 percent on January 1, 1982 and four further annual reductions of 20 percent. Thus all tariffs are scheduled to be eliminated on January 1, 1986.[2/]

Greece has been authorized to maintain transitional quotas on fourteen products. These quotas are to be progressively increased and targeted for elimination by December 31, 1985.

[1/] An Association Agreement with the European Community came into force on November 1, 1962. The Association provided for: 1. the establishment of a customs union; 2. the development of common action and the harmonization of Greek and Community policies in a range of fields; and 3. the making available to Greece of resources intended to facilitate the development of its economy. Because of the political situation in Greece between 1967 and 1974 the Association Treaty was suspended. Subsequent negotiations resulted in the May 1979 Treaty of Accession.

[2/] Under the Association Treaty, Greece has been granted duty-free trade for all of its industrial exports, with the exception of coal and steel products, which were not covered by the Agreement. Approximately two-thirds of the Community's industrial exports to Greece have also benefited from this duty-free arrangement. However, in the sphere of agriculture, the two sides have made only limited progress toward the liberalization of trade.

Regarding agricultural transition an additional two years or a total of seven years has been agreed for fresh and processed tomatoes and fresh and preserved peaches.[1/] Greek farm prices, subsidies and support systems are to be brought into line with CAP regulations over a general transition period of five years. An outline of the operation of the Common Agricultural Policy for Oils and Fats is given in Appendix A.

Price adjustments. For most products accession will mean an increase in Greek prices--both of imports and exports. For feedgrains (corn and barley) and soft wheat destined for feed, EC intervention prices were applied in full immediately following the accession. Also the guaranteed price for rice was set at EC level. For non-feed wheat and rye, however, Greek intervention and reference prices were set below the EC's.[2/] The lower prices in Greece were set in relation to an estimated price thought to have been obtained in 1981 on the Greek grain market under the Greek system of wheat market regulation, similar to that of the EC.

For pigmeat, eggs, dairy products and poultry meat EC prices, which are also at the level of Greek prices, were applied. Likewise, Greek guide and intervention prices for beef were aligned with Community prices immediately upon accession. The existing Greek duty of 20 percent on beef will be phased out during the transition period. Current market prices for sheepmeat were almost identical to that of the EC; therefore, the basic EC price was applied and the reference price set in line with the forecast for 1981 for fresh and refrigerated carcasses.

Greek prices for table grapes and pears are 14 percent and 39 percent

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[1/] The danger of future EC surpluses of peaches and tomatoes has been a major contributing factor to the setting of the longer transition period for these projects.

[2/] The monthly increments applied to Greek prices are the same as those applied to the rest of the Community.

higher than in the rest of the Community. EC peach prices are 133.5 percent higher than those in Greece. Basic and buying-in prices were set at Community level for cauliflower, apples, oranges, mandarins and lemons. Exports of fresh fruit and vegetables to third countries will receive Community level subsidies.

In the case of olive oil, the difference between Community and Greek prices will be compensated for through compensatory amounts, but only for oil which does not qualify for consumption aids.

Indicative prices apply for colza, rapeseed and sunflower. Target prices apply for linseed, soybeans and castor. Minimum prices are also set for soybeans and castorseed.

Reference prices for white wine were set at EC levels and for red wines at 90 percent of equivalent prices. Export refunds on exports to third countries and other support measures were set at Community levels. Cotton has been included in the CAP after accession and the Community's tobacco policy has been extended to cover Greek products.

Monetary arrangements. The Greek drachma is expected to become an element of the European Monetary System (EMS) over a five-year transition period. The drachma will be phased into the European Currency Unit basket of currencies during this time.[1] The provisional representative exchange rate agreed on is at Dra 1 = 0.0166346 ECU or 1 ECU = 60.1157 Dra. The agricultural representative or "green" conversion rate of the drachma for CAP purposes was the average market value of the drachma on December 18 and 19, 1980.

A compensation mechanism is provided to prevent distortions on the Greek and Community markets which may be caused by trade, and to ease the transition toward EC price levels. Accession Compensatory Amounts (ACA's) are being charged on the difference between Greek and Community prices. ACA's will decline over the accession period and will thus align the Greek and EC prices on a step-by-step basis. The ACA's will be applied as subsidies on imports and levies on exports where Greek support prices are below the EC level.[1] In the meantime, Greece is anxious to minimize the ACA's which act as levies on its fruit, vegetable, wine and olive exports.

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[1] At the present the ECU basket comprises the DM, Bfr, Fl, Kr, Fr, and £ 1.

Greece is committed to liberalize capital transaction but with the important proviso that Greek residents will be prevented, until December 31, 1985, from making direct investments in the rest of the Community. Limitation on the drawing of the proceeds of investments made in Greece prior to June 12, 1975 by residents of the Nine will be maintained until December 31, 1983.[2]

Budgetary and financial arrangements. Greece applied in full the principles of the Community's own resources system at the time of accession. It will adopt the full burden of contribution to the budget over a five-year period. This contribution will be minimized over this period by a rebate system.[3] Greece has to contribute agricultural levies, customs duties and the VAT percentage paid by other member states.

Estimates as to the net potential receipts that Greece will realize from the budgetary and financial arrangements vary widely from negligible amounts to $465.5 million according to official Greek calculations. Over the years, with the likelihood of increased EC support expenditures, Greece will be able to look for increased receipts from the Community's regional fund, social fund and FEOGA guidance fund.

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[1] These prices will be corrected to take account of production refunds available to producers of starch and other products under the EC cereals regulation. It is possible to introduce pre-fixing of the ACA's should this prove necessary.

[2] Funds blocked in Greece belonging to residents of the Nine will be progressively released by equal annual installments leading to full liberalization by January 1, 1986.

[3] A progressively smaller amount of this contribution will be refunded--70 percent in 1981, 50 percent in 1982, 30 percent in 1983, 20 percent in 1984 and 10 percent in 1985.

Estimated Receipts by Greece From the Community Agricultural Fund
('000 million Drachmae)

	1981	1982	1983	1984
Guarantee section support for production, processing and export	14.8	21.5	26.2	31.5
Aid for restructuring and modernization	3.7	6.3	7.8	9.2
Aid for improvement of infrastructure	1.0	2.6	3.4	3.8
Total	19.5	30.4	37.4	44.5

Note: $1 = 55.66 drachma

Source: AgraEurope, January 23, 1981, p. N/3.

State aids. To avoid abrupt changes in Greek producer costs or in existing prices, national aids to agriculture will be phased out or modified gradually during the transition period.[1] Most important of these are the general fertilizer subsidy, payments to livestock producers, support for soft wheat, barley, corn, tomatoes, table grapes and apricots for processing.

Greece is to benefit from the progressive application of Community producer aids during the transition period including those to olive oil, processed fruit and vegetables, and durum wheat. Deficiency payments are applied on cotton, dried figs and raisins.

Implications and Effects of Greek Accession

Complicating the accession process are the wide differences between the economies of the Nine members and that of Greece. Per capita GNP for Greece was equivalent to about $3,400 in 1978, compared with an estimated average of about $7,900 for the Nine members. The structure of the Greek economy also differs markedly from those of the other countries.

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[1] Some aids have already been removed including aids to the sugar industry, to asparagus growers, consumption aids for cereals and intervention for aromatic and pharmaceutical plants.

Agriculture's importance in the economy. Agriculture occupies a far more important position in Greece's economy than in that of the Community. Agriculture contributed 14 percent of Greece's domestic product in 1978, employed 28 percent of the work force andsupplied one-third of total exports. The corresponding shares of agriculture in the EC were 5, 8 and 12 percent respectively.

There are several agricultural sectors where Greece occupies an important or even dominant position on world markets. It is the world's largest exporter of dried vine fruits, is second only to Italy as an exporter of peaches and is the world's sixth largest exporter of oranges. Moreover, Greece produces around 90 percent of the world's currants. The main Greek agricultural exports are fruit and vegetables (fresh and processed), accounting for 59 percent of the total; tobacco, 28 percent; and oilseeds, 6 percent. (See following table.) Only small quantities of melons, cucumbers, sweet peppers and early potatoes are exported.

Selected Greek Agricultural Exports (million Drachma*)

	1980	1979		1980	1979
Tobacco in leaf	8768.7	7089.7	Wheat flour	4016.1	3407.5
Currants	3142.6	2686.7	Fruit Juices	1671.0	1540.5
Sultanas	4238.8	3582.4	Processed fruits and jams	3876.7	2859.4
Citrus fruit	4537.3	1778.2	Tomato paste	3322.4	2477.7
Wine musts	764.2	1276.9	Apricots	929.0	634.5
Olives	2990.5	2172.7	Peaches	2419.3	1617.4
Olive oil	989.5	1346.8	Fresh vegetables	2882.3	2153.9

* $1 = 37 Drachma

The most significant agricultural imports are animal feeds and livestock products.

The entry of Greece into the EC has several important implications for Greece, for the Community as a whole and for third countries. There will be economic gains and drawbacks for both Greece and the Community and mainly adverse repercussions for third countries.

Benefits for Greece. From the Greek perspective the agricultural sector is the one least likely to suffer and most likely to gain from EC accession. The benefits from membership in the EC are seen to be in the form of (1) unrestricted access to large markets for its products; (2) higher EC prices for its products and therefore higher incomes for Greek farmers; (3) guaranteed EC prices leading to more stable markets for livestock products and for some fruit and vegetables; (4) support for exports; and (5) eligibility for regional development aids for improving agricultural production and marketing structures.

In recent years the nine EC members purchased some 55 percent of Greece's agricultural exports and supplied around 25 percent of its imports. Regarding individual farm commodities, the EC has absorbed about 26 percent of Greece's total tobacco exports in 1979, 17 percent of orange exports, 44 percent of tomato paste exports, almost half of wine exports, two-thirds of table grape exports, 80 percent of fresh peach exports and about 93 percent of canned peach exports.

Greece is a net exporter of agricultural products and adhesion to the Community is expected to accelerate a process of integration of her trade with the Nine. Overall, Greek accession can be expected to boost agricultural trade with the EC. The immediate effect on its agricultural trade, however, will be uneven and will vary by types of commodities. To the extent that some Greek farm produce has already had unhampered access to EC markets, granted under the Association agreement, the effect of Greece's formal joining of the Community on trade of these products will be small.

For a number of commodities, Greece's agricultural system is complementary rather than competitive with those of the other Nine member countries. As shown in Table 1, Greece is generally short in Beef, milk products, and feedgrains while, on average, the Community has surpluses of these products. Hence Greece is seen to become a growing market for EC beef, milk products and animal feedstuffs.

Table 1. Degree of Self-sufficiency in Selected Agricultural Products in Greece and EC

Product	Greece[1]	EEC(9)[2]	Product	Greece[1]	EEC(9)[2]
Oilcakes	n.a.	5	Apples	101.7	99
Oilseeds	n.a.	10	Peaches	166.7	101*
Vegetable oils	n.a.	8	Oranges & mandarines	151.9	47*
Olive oil	119.8	88*	Lemons	190.7	94*
Soft whest	111.9	105	Wine	116.9	98
Durum wheat	103.0	85	Beef	70.4	101
Barley	98.0	103	Pigmeat	99.1	99
Maize	38.9	53	Sheep & goat meat	87.5	66
Rice	110.3	65	Poultrymeat	99.1	102
Potatoes	106.3	99	Butter	93.5	111
Cucumbers	124.7	86	Cheese	99.3	103
Cotton	124.5	0	Cows' milk	89.2	100
Table grapes	120.9	100	Eggs	100.0	101
Apricots	162.5	86	Sugar	n.a.	111

[1] Ø 1974-76

[2] Ø 1976-78

*Accession of Greece, Spain and Portugal is estimated to raise self-sufficiency in olive oil from 88 percent to 109 percent, citrus fruit from 51 percent to 89 percent, and peaches from 101 percent to 105 percent.

On the other hand, Greece produces a surplus in oleaginous plants, durum wheat, rice, citrus fruits (oranges and lemons), cucumbers, apricots, cotton, potatoes, tobacco and fish, products in which the Community has varying degrees of deficits.[1] Conversely, an increase must be expected in Greek exports of these products to the Nine. The effect of Greece's accession on the Community's wheat and barley supply and demand balance is shown in Table 2.

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[1] No significant increase in Greek tobacco exports to the EC is expected because 80-85 percent of Greek tobacco is oriental. The consumption of this type of tobacco seems to have reached the saturation level.

Table 2. EC Enlargement and Wheat and Barley Balance, 1979/80-1980/81

	Wheat			Barley		
	1979/80		1980/81	1979/80		1980/81
	EC-9	EC-9	EC-10	EC-9	EC-9	EC-10
			('000,000 t)			
Opening stocks	7.6	6.5	6.6	1.9	2.2	2.2
Production	46.4	51.5	54.5	38.9	40.4	41.3
Imports	4.4	5.0	5.0	0.9	0.8	0.8
Domestic use	41.7	41.7	43.4	19.6	20.2	20.6
Exports	10.3	14.7	15.9	4.5	6.5	6.5
Closing stocks	6.5	6.6	6.7	2.2	1.0	1.0

Greece is about self-sufficient in eggs, poultrymeat and pigmeat, and has exportable surplus in sugar.

Since fruit prices in the EC tend to be higher than in Greece, a significant diversion of trade from Eastern Europe to the EC is expected. Also Greece will step up its wine exports to the Community.

From Greece's perspective, accession broadens the geographical area and the consuming public which is expected to provide a profitable market for the indicated farm products as well as other Greek agricultural products. Market expansion, together with higher farm prices, cannot fail to provide encouragement to production and for the development of Greek agriculture.

Community membership will help Greek farming in the areas of regional development and improvement and modernization of processing and marketing. Other benefits expected from membership are the possibilities of applying to the European Investment Bank for the financing of industrial and regional development works in the form of low interest loans, low interest loans for land improvement schemes, income supplements to people in mountainous or difficult regions, and infrastructure works in mountainous or difficult regions.1/

1/ *AgraEurope*, January 23, 1981, p. N/3.

Drawbacks for Greece. Despite the planned transition period, Greece will have to make great efforts and painful adjustments to meet the competition it faces from the rest of the Community. To begin with, Greece has the least developed agricultural sector in the EC, with productivity generally below that in the rest of the EC. The low productivity is due to small and fragmented farms, shortcomings in training, research, and the organization of storage, processing and marketing of produce.

Greek farm holdings are very small; some 80 percent of the country's 706,640 farms are under 12 acres and are worked by aging farmers using little mechanization.[1] Concentration on cooperatives has followed the relative failure of attempts to encourage the voluntary consolidation of scattered land holdings. Cooperative farming to some extent overcomes the obstacles faced in introducing mechanization on such fragmented holdings.

Greece is facing competition from other Mediterranean countries for its exports on the Community market since most countries in the region have preferential access to the EC market for their exports. Additionally, the opening up of EC competition in areas where Greece is not strong, as in livestock products, could lead to problems and decline in Greek production. It is possible that production of certain livestock products might decline, particularly pork and milk, owing to a rise in the price of feedstuffs, termination of subsidies in feedgrain consumption and a corollary drop in the profitability of Greek production.[2]

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[1] These holdings are split into an average 7.3 plots of land of an average size of 1.6 acres. The fragmentation is due to a large extent to Greek inheritance law, which permits equal distribution of land property among all its owner's children, and to the custom of giving dowries of land to daughters on their marriage.

[2] The feedgrain consumption subsidy initiated in 1970 amounted to $62 per metric ton in 1979.

The competitive position of Greek agriculture has been weakened by the elimination of national subsidies on means of production such as fertilizers, animal feeds, machinery and interest rates. Elimination of these will increase production costs.[1] Another situation limiting the competitive position of Greek farm products are higher transportation costs in view of Greece's greater distance from European markets than Italy or France. Excess supplies of certain fruits and vegetables will face a serious challenge in meeting this competition.[2] One major disadvantage that the Greek fruit and vegetable sector must overcome is the improvement of quality and packaging. Mitigating the adjustment problems is that the full application of CAP for the sensitive products tomatoes and peaches is extended over a seven-year transition period.

East European countries have provided important markets for Greek fruit and vegetables and in the case of citrus fruits they have taken around 70 percent of total Greek exports. Under the terms of accession Greece has to end, progressively, its clearing (or formal barter) agreements, many of which were concluded with East European Countries.[3] This will tend to reduce Greek fruit exports to these countries.

Raising of certain Greek farm prices will not only stimulate production but will hold back growth of consumption. There is concern that consumption of bread making wheat, some fruit and vegetables, beef and veal, and olive oil will decline as a result of higher prices.

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[1] Reports indicate that the imposition of the CAP on Greek agriculture is actually tending to reduce returns to growers through the replacement of national aids by their EC equivalent. For table grapes, the EC system provides less support than previous Greek aids, and EC export subsidies are smaller than Greek. The export restitution on apples is also less than Greece's.

[2] An estimated 100,000 tons of top quality peaches will be withdrawn from the market and destroyed by the time of the ending of the 1981 fall season. Similar problems are looming for table grapes and oranges.

[3] The clearing agreements stipulate the exact nature and value of goods that is being exchanged by Greece and other countries. Thus Greece may agree to purchase industrial goods or raw materials of a certain value in exchange for an order of the same value of specific Greek agricultural produce.

Greece has the highest per capita consumption, 15 kilograms, of olive oil in the world compared with 8.4 kilograms in Italy and 2.5 kilograms in the Nine. Meat consumption, at 60 kilograms per capita, is below that of the Nine. Butter consumption, 1 kilogram per head, is much lower than the 7 kilogram average in the EC. Greek cheese consumption, however, at 15 kilograms per capita, is higher than in the EC (12 kilograms). Higher retail price for olive oil in Greece together with the removal of duties on imported soybeans are expected to reduce per capita consumption of olive oil at the expense of soybean oil or other vegetable oil.

Inflationary pressures will intensify in Greece as its agricultural product prices are equalized with EC prices that were generally kept much higher by the EC's common agricultural policy. Higher farm prices are predicted to cause a rise in food prices that will further contribute to the already high rate of inflation which stood at 19 percent in 1979.

Non-agricultural implications. There is concern about safeguarding the "national identity" of Greek industry and to avert a "territorial sellout" in the form of mass transfers of land and real estate to nationals of other EC member states. Greece's industrial base still consists overwhelmingly of small family units, backwards in terms of production, marketing and management. There is a fear that many of them will be either bought up by EC rivals or will be put out of business by increased competition.

The Greek economy will have to develop almost faster than the agricultural sector if it is to absorb labor from the agricultural sector as farm production becomes more efficient with the help of the EC's structural improvement projects.

Effects on EC. From the perspective of the existing EC member countries, Greek accession will have far more impact on its own agriculture than on the common agricultural policy. Greece is simply too small in relation to the EC

Nine to greatly affect the workings of CAP; yet in some sectors its influence will undoubtedly be felt. In a sense, Greek membership makes for a much more balanced relationship between northern and southern Europe.

There is an overlap between Greek and Community production in soft wheat, rice, potatoes, table grapes, peaches, processed fruit and vegetables, and in wine. There might be a moderate increase in EC consumption of olive oil, due, in part, to greater availability and consumption subsidy put into effect in 1979 aimed at narrowing the gap in prices between olive and other vegetable oils. Among these products, serious conflicts will be in peaches, tomatoes, wine and table grapes, which are more or less regularly in surplus in the Nine. Barring a boost in Greek production, the surplus problems might be eased by the relatively small Greek production of such crops compared with the total Community production.

The alleviation of emerging surpluses in these commodities together with the financing of intervention purchases of other surplus farm products eligible for price guarantees will mean a continued transfer of Community resources to Greece. Additional Community resource transfer will come from the application of policies for regional development and from the improvement of Greek agricultural infrastructure system.

Spanish Accession

Transitional issues and problems. Barring unforseen complications, Spain and Portugal are slated to join the Community in 1984. The slow progress of negotiations is causing increasing frustrations on both sides. A major cause of delay is the reluctance of the French to make concessions to Spain in the agricultural sphere. The Committee of Agricultural Organizations in the European Community (COPA) would rather see Spain not join the Community.[1] Spanish industrialists are not keen, either, on facing EC competition and could thus hamper progress in farm negotiations. The Commission has recommended a transitional period for Spanish agriculture of at least seven but not more than ten years. Over this period Spanish prices and market regulation would gradually be adopted to the CAP and all existing policies which are in conflict with EC measures abandoned. There would also be progressive implementation of Community aid policies and ~~of~~ the customs union in Spain. Spain will also have to accede to all the EC special agreements with Mediterranean and ACP countries, which provide for wideranging tariff concessions on fruit and vegetable products.

Special arrangements, including changes in the EC regimes, are being contemplated for the smooth integration of certain sectors. These include cereals, wine, oils and fats, fruits and vegetables.

Comparison of EC and Spanish agricultural prices.

Products for which Spanish prices are higher: Corn (producer price), sugar beet, milk, butter, table grapes, processing oranges.

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[1] This attitude becomes clear from its demand for a minimum 15-year transition period for Spanish agricultural products. See Agra Europe, February 22, 1980, ~~p.~~ E/3.

Products for which Spanish and EC prices are roughly comparable: Soft wheat, white sugar, red wine, beef, pigmeat, cauliflowers, peaches, long grained rice (producer price).

Products for which the Spanish price is lower: Durum wheat (producer price), barley, corn (consumption price), sorghum (consumption price), short and semi-long grained rice (producer price), all rice (consumption), tomatoes, cucumbers, pears.

Products for which Spanish prices are very much lower: Olive oil, white wine, durum wheat (consumption), ~~apples~~, citrus fruit, processing tomatoes.

Over the transitional period Spanish prices should be gradually aligned with those in the Community. For corn and sorghum, which are in deficit both in Spain and the Community, the alignment of prices will be based on import prices rather than on producer prices. This would avoid a sharp increase in feed prices to Spain's livestock farmers.[1] Domestic cereals producers would be compensated for the temporary fall in their support prices by a Spanish government subsidy equal to the difference between import prices and producer prices.

Olive oil has been more protected in Spain than in the Community, even though EC prices are higher. The adoption of the CAP for oils and fats would mean an increase in the price of olive oil in Spain and the elimination of Spanish restrictions on imports of vegetable oils. The present Spanish policy limits the vegetable oil: olive oil price ratio to 1:1.6, whereas in the Community the ratio is 1:2.7. In order to mitigate the effects of changeover, it is proposed that Spain reduce its trade restrictions on oils and fats gradually, thus preventing a sudden drop in olive oil consumption.

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[1] Spanish cereal producers receive high guaranteed prices while livestock producers import feedgrains at world prices.

Effect on Spain. The integration of Spanish agriculture into the CAP will bring advantages and difficulties for Spain. Overall, advantages to agriculture are seen to come from improved marketing of agricultural products, improved supplies of food products and assistance with rural development through preferential credit. With respect to individual farm commodities, Spain's fruit and vegetables, fish, rice, wine, olive oil, and sheep meat are most likely to gain from the CAP. Production of most fruit and vegetables are expected to rise substantially; orange production is likely to double while tomato production is seen to rise by nearly 50 percent.

Spain, however, has some reservations over EC entry concerning fruit and vegetables. One is that Spanish apple and pear producers may find themselves at a competitive disadvantage with other EC producers. Another concern is that a number of fruits and vegetables are often of better quality in the EC than in Spain and for some items costs are lower too.

Pigmeat, poultry, eggs and possibly sugar (accounting for 25 percent of final agricultural production) may neither gain or lose.

Large parts of Spanish agriculture stand to lose from accession. Products in Spain which will suffer from accession are milk, dairy products and soft wheat, which together make up 15 percent of the value of final agricultural production. For dairy products and beef, Spain's small and inefficient producers will find it difficult to compete with EC exports once trade restrictions are lifted. In general the poorer regions which are mainly livestock producing will be subject to adverse competition from the Community. This will lead to even more regional disparities. Other sectors which view accession with concern include prepared foods (canned or frozen), cereal derivatives and confectionary.

Spain will have to buy its imports of meat, cereals and dairy products at prices far above those likely to be prevailing upon the world market.

Whether these drawbacks can be compensated for Spain by Community price support remains to be seen. Domestically, Spain faces a major overhaul of its agricultural system to bring it up to EC levels of efficiency and productivity. Reform measures are especially needed in the dairy, grain and meat sectors.

The Spainsh government has announced a five-year plan to correct the structural weaknesses of Spanish agriculture and to adjust it to Community standards by the time of accession. Part of the modernization plan is the grubbing of more than 250,000 of the 2 million hectares currently devoted to olive oil production which are considered marginal areas. The land thus obtained would be shifted over to other crops, especially grains and sunflower seed. In addition, plans call for the modernization of 750,000 hectares of olive groves which are considered viable but in need of improvement.

Effects on nonagricultural sectors. There is widespread fear of the impact that EC competition will have on Spain's protectionist-ridden industries. Spanish industry is still essentially underdeveloped, made up of small and medium enterprises hitherto protected by high tariff walls. More than 93 percent of Spanish businesses employ only 25 or fewer workers.

In key sectors Spanish industry productivity is lower than in the EC. The electronic, home appliance, petrochemical products, shipping related items and automotive parts industries are among Spanish industries seriously threatened by EC technology.[1/] Because of its disadvantageous position Spain is asking for total EC tariff elimination in a period of two to three years as opposed to five years for Spain.

Europe's southward migration of labor-intensive industries is likely to benefit Spanish industry, with big investments coming from automotive manufacturers.

[1/] According to a Commission report Spanish accession will have an adverse impact on 53 domestic industrial sectors. See, Journal of Commerce, January 16, 1980, p. 12.

EC membership will also provide an outlet for Spain's 1.3 million unemployed, as well as job security for some 450,000 Spanish workers in EC countries. Spain would need to maintain a 5 percent growth rate in order to create jobs for 160,000 workers a year. This is estimated to be the minimum number of new jobs required to hold the line on unemployment.

Effects on third countries. One important effect of enlargement will be the changes it will bring about in the Community's trade with third countries. The prospective new member states will, after accession, purchase their requirements of livestock, dairy products and cereals from the Community rather than from lower-priced world suppliers as at present. The present Community countries, on the other hand, will switch their purchases of many Mediterranean products from their preferential suppliers to the new member states.

The Community's imports of certain fruit and vegetables (fresh and processed), olive oil and wine, from its Mediterranean preferential trading partners may either be sharply curtailed or eliminated completely. But the effect on individual countries will vary greatly. It will have relatively little impact on countries whose main trade with the EC takes the form of raw materials, mainly oil and phosphates. These inlcude Algeria, Lybia, Syria, Jordan and Lebanon which export raw materials to the EC but ship most of their fruit and vegetables to the Gulf states.[1] Spanish accession would hit the agricultural exports of Tunisia, Morocco, Cyprus, and to a lesser extent, Egypt, Turkey and Israel. The former countries send up to 75 percent of their agricultural exports to the Community.[2] Closing of the EC export market to these countries would likely create turmoil in their farm industries. These countries, for balance of payments reasons, could look elsewhere for their industrial imports and could damage EC relations. The Community's external relations will ~~thus~~ have to take account both of the needs of the CAP and the need to harmonize the Community's preferential agreements in the light of enlargement. Measures which might be taken to counter the effects of enlargement on third countries include the encouragement of movement away from the production of Mediterranean products in the prospective new member countries and some liberalization of the CAP.

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[1] Alfred Tovias, EEC Enlargement--the Southern Neighbours, Sussex European Papers No. 5, SERC, University of Sussex, Brighton, England, 1980.

[2] Tunisia and Morocco are concerned about their olive oil exports, Egypt about potatoes, Morocco about citrus fruit and Israel about tomatoes. Cyprus is among the countries most heavily dependent on exports of agricultural products to the EC; it exports citrus, wine and potatoes.

Spanish accession may bring about a trade diversion in labor intensive manufactures. Latin American countries, in particular, are concerned that Spanish EC membership would restrict the region's export of textiles, shoes, home appliances and other manufactured goods to the Community.

Effect on EC. Spain's joining of the EC will pose specific problems and bring important changes to the Community's agricultural sector. It will mean an increase in the Community's agricultural area and farm labor force by almost one-third.[1] Agriculture still plays a more important part in Spain's economic development than in the Community. Although its share of the total economy is falling, agriculture provides 9 percent of Spain's GNP and accounts for one-fifth of total exports.[2]

Accession will worsen the Community's problems by 1. increasing market and regional imbalances; 2. placing a heavier burden on the EC budget; and 3. accentuating the Community's existing balance of trade deficit.

Market and regional imbalances will become most apparent in fruit, vegetables, wine and olive oil sectors, which together account for over a third of Spanish agricultural output and make up 74 percent of agricultural exports. Spain will bring the Community 83 percent self-sufficiency in citrus fruits, 102 percent in wine, 99 percent in fresh vegetables, 110 percent in tomatoes and 124 percent in olive oil. In barley (Spain's main cereal) and poultry products, Spain also could add to the EC's existing surpluses. Support of the olive oil sector is possibly the most costly single item after Spanish accession.

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[1] Employment in agriculture represented 19.5 percent of the total in 1980.

[2] In 1978 per capita GNP stood at $3,967, close to that of Italy.

In wine, Spain has a decided advantage thanks to lower labor costs. In Spain labor represents 6 to 8 percent of total production costs compared to 20 to 30 percent in France. More than 40 percent of Spain's wine exports are sent to the EC. Spanish wine exports to the EC are about 35 percent cheaper than French wine and 26 percent below the cost of Italian wine. Prices of Spanish wines in the EC will fall after accession through the removal of import duties. Spanish accession will bring strong demands for the scrapping of high taxation on wines in the United Kingdom and other northern Community countries.

Spain is a leading world exporter of tomatoes. France's higher operating costs will also place it at a competitive disadvantage against Spanish tomatoes and peaches. Moreover, Spanish peaches enjoy a longer production season. France will stand no chance of competing with Spain in citrus fruit.

Glasshouse production will be particularly affected by enlargement and elimination or conversion of expensive glasshouse production will be necessary.

Spanish accession will also have an important bearing on the Community's trade balance. Currently the Community is Spain's largest supplier and customer. In 1979 it took 47.9 percent of the country's total exports and supplied 35.9 percent of its total imports. The situation is more lopsided in agricultural trade, where the Community absorbs about 60 percent of Spain's total agricultural exports, but provides only 10 percent of the country's agricultural imports. These trading patterns, if not reversed, would accentuate the EC's existing balance of trade deficit.

From the Community's side, Spain is viewed as a springboard for exports to Latin America where that country maintains close trade links, thanks to a common language and an aggressive export policy. Latin America is Spain's second biggest market, purchasing over 11 percent of all Spanish exports.

The generally low level of Spanish productivity, the expansion of irrigation and the prospect of greater support for certain products once the EC's policies are applied in full mean that Spain is likely to increase its yields and therefore future production levels. The magnitude of expansion will depend on how production responds to EC prices and costs. The growth in production will also depend upon the use to which new irrigated land is put. One way to control Spanish surpluses would be by limiting use of new irrigated land for fruit and vegetable production.

The EC may well encourage production of oilseeds and feed grains in which the Community is deficient. Much Spanish irrigated land is already used for corn and sorghum and there is room for a development of irrigated oilseed production.

It should be pointed out that the market outlets which Spain will provide for EC member states will not be sufficient to allow for any alleviation of the existing surpluses in those sectors. This is particularly true of the dairy sector, where Spain's deficit is declining.

Portuguese Accession

The Community's view has always been that Portugal and Spain should join simultaneously. The questions to be resolved in Portugal's negotiations with the EC are, in many ways, different from Spain's and the problems posed for the EC by Portuguese membership are less weighty and easier to settle than Spain's.

Portugal views its agricultural modernization, economic development, and achieving a higher industrial standard along with greater financial strength as the principal assets of the EC accession. The contribution it could make to Europe's greater political unity would be another aspect.

Portugal's agriculture. Agriculture plays a prominent role in the Portuguese economy, employing 28 percent of the working population and accounting for 14 percent of the country's gross national product. Portugal is a food deficit country; it's farm trade deficit was $970 million in 1979. The deficit is estimated to have greatly increased again in 1980 and 1981.

Portugal has one of the most backward agricultural sectors in Europe and its revival is an absolute and immediate priority quite independent of the question of progressive integration into the CAP. Much of the problem lies with poor technology and low yields. The poor performance of Portugal's agriculture in the post-World War II period was due to a combination of factors including 1. inaequate government policies; 2. low investment; and 3. unequal landownership pattern. Agricultural production has actually declined in the 1970's due to the political instability and economic mismanagement prevailing in Portugal since the 1974 revolution. Radical agricultural reforms were instituted in 1975 and 1977 leading to a redistribution of land and the setting up of large collective and cooperative farms. So far the new farm enterprises, established in the main crop growing areas in the south of the country, have been unable to organize efficient production. Thus, there has been a fall in crop production, especially cereals. In the north of the country small scale farming dominates, a situation which also hinders efficent crop and livestock production. Nonetheless, livestock production has continued to grow, but mainly at the expense of large imports of feedingstuffs.

Portugal introduced a number of policy measures in 1980 designed to revive the country's flagging agricultural sector prior to accession to the Community. The core of these measures rests on a substantial increase in support prices for most agricultural products combined with subsidies for inputs. Products benefiting most from price increases were cereals (except oats), oilseeds and sheepmeat. On the other hand, support for the dairy sector was ended. Additionally, measures were introduced to curb the rising cost of agricultural inputs. A price freeze has been imposed for fertilizers and compound feeds and compensations for increases in fuel costs were announced.

Effect of accession on Portugal. Portugal already has close ties with the Community established under a preferential trade agreement signed in 1972 which was effective from the start of 1973.[1] The EC will have to extend considerable aid to Portugal to carry out radical economic and social reforms to bring about a structural realignment and support of agricultural modernization. Portugal has an extensive subsidy system and a complex marketing system which conflicts with the Community's regulations and have has to be dismantled after accession. The system of consumer subsidies plays a very important role in keeping Portugal's cost of living at an acceptable level. A sudden removal of these subsidies would impose undue hardships on consumers. Nonetheless, Portuguese consumers will suffer from having to import many products at higher Community prices instead of at lower world market prices.

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[1] It provided for the elimination of tariffs on industrial goods and substantial reductions in tariffs on important Portuguese agricultural exports to the Community. These included, in particular, tomato concentrates, wines and fish products. Over three-fourths of Portugal's agricultural exports are now covered by preferential EC tariff arrangements.

The Portuguese fertilizer subsidy is an important factor in maintaining farm income. This subsidy too will have to be phased out gradually. The adaptation of Portuguese systems to Community policies will thus require an extended transitional period. Indications are that the transition period will run between seven and ten years.

Estimates made by the Commission suggest that Portugal would contribute 234 million ECU ($253 million) a year in agricultural import levies to the EC budget but would receive only 119 million ECU ($129 million) in farm price support payments. Additionally Portugal would receive about 60 million ECU ($65 million) in payments for structural improvement which means that Portugal would make a 55 million ECU ($59 million) net budgetary contribution.

Effect of accession on EC. Portuguese accession to the EC will have a small impact on EC agriculture. To the extent that Portugal is a substantial importer of foodstuff in which the Community has surpluses, its accession will have a generally favorable impact on the Community. EC products for which Portugal offers a market include butter, cheese, beef and pigmeat where EC could displace most of Portugal's current third country suppliers.

In addition EC could acquire a larger share of Portugal's soft wheat and feedgrain markets, although this will depend on the extent to which EC wheat and barley can replace imports of corn and sorghum.

The largest trade diversion accompanying accession will be in sugar since at present Portugal imports most of its requirements. A shift in Portuguese purchases thus could make a significant reduction in EC's surpluses after enlargement.

For a few Mediterranean products, particularly wines and tomato paste, Portugal could contribute substantially to the surpluses of the enlarged

Community. Portugal is the fourth largest wine producer in Europe. In most years it's production represents about 6 percent of current EC output. As an exporter of table wines, Portugal will add to the EC surplus in this sector.

Portugal is a large and efficient producer and exporter of tomato paste. Since Greece, Italy and Spain are also large exporters, the enlarged Community is likely to be faced with a substantial surplus of this product.

In the case of fruit and vegetables and olive oil, which are surplus products in Greece and Spain, Portugal is generally self-sufficient and hence its accession will not aggravate the Community's surplus situation.

On present indications, U.S. exports of corn, sorghum, wheat and soybean products may be impaired by the CAP when Portugal joins the EC.

Vegetable Oils Tax: Issues and Implications

The question of a production or import tax on all vegetable oils and oil-bearing materials is a long standing issue and is currently linked with EC's efforts to reorganize its budget and, with it, the Common Agricultural Policy. The tax is being advocated as a revenue raising device to finance the expected rise in Community expenditures following the accession of Spain and Portugal.

Estimated cost of olive oil support. Community analysts have estimated that the cost of the EC's olive oil support policy might double after Spain and Portugal join the Community and if consumer subsidies are raised above the present level. That is, the cost of the policy would rise from its present 646.2 million ECU ($698 million) to 1.37 billion ECU ($1.5 billion). [Table 4] With consumer subsidies unchanged, the cost of olive oil market support would rise to 1.1 billion ECU for the Community of 12. An increase in consumer subsidies would be needed to compensate for a reduction in the price of olive oil as an incentive for increased consumption. It is felt that the prevailing olive oil-vegetable oil price ratio of 2.7 to 1 would have to be lowered to a 2 to 1 level to stimulate consumption.[1]

Methods for financing olive oil support. Specific proposals dealing with the financing of disposal of olive oil surplus resulting from the Community's future enlargement include:

(1) a production tax which would be chargeable on the production and use of all vegetable oils, whether imported or domestically produced;

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[1] This would mean the raising of consumer subsidy from its current level of 471.6 ECU per ton to 781.60 ECU per ton.

Table 4. Projected Cost of Olive Oil Support

		EC of 10		Spain & Portugal		EC of 12	
	ECU/ tons	Quantity *(000 tons)*	ECU *(mil.)*	Quantity *(000 tons)*	ECU *(mil.)*	Quantity *(000 tons)*	ECU *(mil.)*
Production aids	558.1	758	423	489	272.9	1247	695.9
Consumer subsidies	471.6	454	214	370	174.4	824	388.4
Canning refunds	280	20	5.6	10	2.8	30	8.4
Export refunds	240	15	3.6	60	14.4	75	18
Total			646.2		464.5		1110.7
Increase in consumer subsidy necessary to maintain consumption	310	454	140.7	370	114.7	824	255.4
Grand Total			786.9		579.2		1366.1

On September 30, 1981: \$1 = 0.925 ECU or 1 ECU = \$1.08.

Source: Direction de l'Agriculture de la Commission CEE, Agra Europe, October 16, 1981, p. E/2.

(2) deconsolidation of the GATT binding on oilseeds and the imposition of an import levy;[1]

(3) a minimum import price system similar to that already operating in Spain where not only do crushers of imported oilseeds have to observe a minimum selling price, but also have to guarantee to re-export a significant proportion of their oilseed production;

(4) limiting the area and quantity of olive oil production by offering structural subsidies for the grubbing of olive groves and the conversion to some other form of production.

A fifth option would be to make no changes and absorb the added costs of enlargement by getting member states to contribute more than one percent of their value added tax revenue to the EC budget.

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[1] The U.S. has negotiated zero duties or levies on soybeans and soybean meal in 1962 during the Dillon round of multilateral trade negotiations conducted within the GATT framework.

Tax on vegetable oils. A tax of 100 ECU per ton on vegetable oils and fats (\$108) was considered which would yield an estimated 500 to 600 million ECU (\$540 to \$650 million). The tax would be applied at the processing level or at the point where oils enter the market. The levy would be applied on both oilseeds in food production and manufacture. For oils it would be payable on the oil content of the original raw materials whereas for foods containing oils it would be based on the amount of oil used in the manufacture of processed foods.

The categories of foods on which the tax would be levied are fish oils, raw vegetable oils in any form, industrial vegetable oils, margarine, animal and fish preparations containing vegetable oils, chocolate, baby foods, dietetic foods, patisserie, processed vegetables containing oils, sauces, condiments and seasonings, processed soups and stews--any foods containing vegetable oils and, finally, animal feedingstuffs containing vegetable oils. Thus, there is very little of the food sector which would not be affected were the vegetable oil tax to be imposed.[1/]

On the Community side proponents of the tax also regard it as an instrument for controlling dairy expenditures. According to these analysts, the dairy surplus is in large part attributable to the liberal import policy for oilseeds and their products which resulted in lower-priced oilseed-based feeds and low vegetable oil prices. These low priced feeds, in turn, have stimulated excessive production of milk and resulted in surplus buildup of butter and dried milk powder. Relatively low oilseed prices also made possible the production of low cost vegetable oils, particularly soybean oil, to be used in margarine production. Margarine thus has obtained a competitive advantage over butter, causing a reduction in butter consumption. A tax then, would not only reduce the

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[1/] The full list of tariff headings to which the tax would be applicable, listed in the annexes to the draft regulation is: 15.04, 15.07, ex 15.08, 15.10, ex 15.12, 15.13, ex 15.17B, ex 16.02, ex 16.04, 17.04C and D, ex 18.06, ex 19.02, 19.08, ex 20.02, ex 21.04, ex 21.05, ex 21.07, and ex 23.07.

competitive advantage of margarine against butter, but at the same time make soybean meal more expensive and thereby discourage the increase in imported feed based dairy production.

Supporters of the tax also expect that it would promote the consumption of olive oil by making competing vegetable oils and fats more costly. The arguments for the tax rest on the notion that changes in price relationships between two products will automatically influence consumption and that the two products are good substitutes for each other. A recent study has found that for most European consumers butter and margarine are complementary in the diet and not substitutes for each other.[1]

Generally, butter consumption in the EC has tended to decline over the last ten years while margarine consumption has remained steady with a consequent rise in the share of margarine in total consumption.

The effectiveness of a vegetable oil tax for bringing about an increase in butter consumption hinges on the price elasticities of demand for the two products in the Community. Studies suggest that there is very little change in the amount of butter consumers will buy as a result of a rise or fall in price.[2] The price elasticity of demand for butter in the Community was found to be -0.3 percent, suggesting that a one-percent increase (or decrease) in the price of butter would reduce (or increase) the amount of butter bought by only 0.3 percent. Likewise there is little consumer purchasing responsiveness to changes in the price of margarine.

This low or small consumer responsiveness to price changes suggests the ineffectiveness of a vegetable oil tax as a means of diverting consumption from the vegetable oil-based products to butter. This is principally because of the very low cross elasticity of demand for butter against margarine or vice versa, a result of the lack of substitutability of the two products in the mind of the consumer.

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[1] This relationship tends to be stronger for consumers in the higher income brackets and for the urban consumer in general.

[2] The price elasticity of demand for butter, however, varies by countries; it is relatively low in Ireland and the United Kingdom and relatively high in Belgium and the Netherlands.

Thus the level of tax needed to reduce margarine consumption would be prohibitive and politically unacceptable. Moreover, the imposition of the proposed tax would place a disproportionate financial burden on the consumers in the poorer southern regions of the Community who extensively use vegetable oils and margarine in their diets.

All things considered, the indications are that there is a decline in the total yellow fats (butter and vegetable oils) consumption in all Community countries. This suggests a significant change in dietary pattern working against both butter and margarine. Taxes and domestic consumption subsidies will have little effect in reversing these dietary trends.

It should be pointed out that support for the vegetable oils tax within the Community is not unanimous. The Germans, Dutch and British are opposed to any import levy or production tax on two grounds: its effect on their oil crushing, animal feed and margarine industries and its harmful effects on international trading arrangements.

Disapproval of the Community's plans for a vegetable oil tax was also registered at the FAO's Committee on Commodity Problems September 1981 meeting. The committee regarded such tax as "a protectionist move and contrary to international agreements reached at various forums such as GATT."

Argentina too has expressed concern over the imposition of a vegetable oils tax because vegetable oil and oilseeds currently form 19 percent of its total exports. Also, from Argentina's standpoint, the application of a vegetable oils tax would result in a significant drop in the real value of the EC's GATT concessions.

Because of the intense opposition from both within the Community and from international trading partners the EC Commission, in October 1981, shelved a tax for the present. However, the Commission suggested that the GATT negotiations on Spanish accession (Article XXIV:6) include consideration of a change in the existing tariff arrangements for oilseeds. The EC intends to seek import restrictions or authority to impose tariffs on imports above current levels by referring to Spain's right to restrict oil sales as a means to support its olive-oil industry. The Commission has also given up the idea of structural measures involving olive grove grubbing or similar production diversion to correct the surplus problem.

Meantime, the Commission has recommended measures for the promotion of olive oil consumption by reducing the price ratio between olive oil and other oils sold in the EC and by concurrently increasing consumer subsidy in a manner described earlier. There are plans for the limitation of the operation of the CAP's olive oil support provisions to the area planted to olive trees on November 1, 1978.

Spanish soybean policies. Spain permits unrestricted imports of soybeans but since 1975 has placed a limit on internal sale of soybean oil. The quota has been set at progressively lower levels since its initiation. The intent of the quota system is to protect domestic producers of olive oil and sunflower oil and to boost domestic consumption of these oils.

Spain argues that because the imported beans are processed into oil in Spain, soybean oil should be classified as a domestic product and hence it is free to regulate the use and mode of disposal. That is, from Spanish point of view, sale restrictions cannot be regarded as a discriminatory treatment of an imported product. This practice allows Spain to circumvent GATT rules which stipulate that imported and domestic products be treated on the same footing.

As a result of restrictive domestic sales Spain has been able to increase its soybean oil exports and become the third largest soybean oil exporter in the world after the United States and Brazil. From 4,000 tons in 1967/68 exports have risen to 440,000 tons in 1980/81 which represented 12.3 percent of the world's total. Spanish soybean oil exports are being aided by a government subsidy of crushers' margins on domestic soybean oil sales by approximately $100 per ton. Spanish exports have taken away U.S. soybean oil markets in North Africa and the Middle East prompting the U.S. to file a GATT complaint against the Spanish system in 1979.[1] A GATT panel rendered a decision unfavorable to the U.S. in June 1980 by upholding Spain's policy of restricting vegetable oil within its borders. At U.S. urging and with the support of sympathetic trade partners, the findings of the panel were merely "noted" but not officially "adopted" by the GATT Council at its November 3, 1981 meeting.[2] The concerning issue regarding the upholding of the legitimacy of the present Spanish system of taxes and sales limit on soybean oil is that it could have set a potential precedent for the introduction of similar restrictions by the EC. The GATT Council's ruling will allow the U.S. to pursue further action against Spain withing the context of GATT.

U.S. soybean producers and processors are pressing for a negotiated phase-out of the Spanish system of soybean and oil marketing prior to Spain's accession to the EC.[3]

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[1] Much credit for the strong stand taken by the U.S. Trade Representative's Office against the Spanish measures is due to the lobbying work of the National Soybean Processors Association.

[2] The Spanish position for a formal adoption of the GATT panel's report was backed by the EC, Austria and Czechoslovakia. The U.S. position was also supported by Australia, Brazil, Canada, Egypt, Jamaica and New Zealand.

[3] See statements submitted at the October 16, 1981 Hearings of the United States Senate Governmental Affairs Subcommittee on Energy, Nuclear Proliferation and Government Processes. These include statements of: the National Soybean Processors Association by Sheldon J. Hauck; A. E. Staley Manufacturing Co. by Vernon McMinimy; National Corn Growers Association by William Mullens; Corn Products By Gordon Rapp; American Soybean Association by Allan D. Aves and Land of Lincoln Soybean Association by Jerry Gates.

Pressures for CAP Reform

CAP weaknesses. The CAP has been a divisive factor burdened with recurrent strains arising from the (1) reconciliation of divergent national interests in the formulation of commodity policies; (2) emergence of structural surpluses in several commodity markets; (3) persistence of income disparities within the agricultural sector; (4) disputes over the size of national contributions to the EC budget; and (5) price distortions caused by exchange rate fluctuations.

There are actual and potential imbalances in commodity markets. Structural surpluses exist for wine, butter and sugar. Surpluses are apparent in wheat, olive oil, beef and some tobacco varieties. Criticism concerns CAP's inability to prevent the persistence of wide income disparities within the agricultural sector. Such disparities exist between regions, by type of farming and between large and small farmers. Generally incomes from crop production are about twice those in livestock farming.

Another flaw attributed to CAP is that it has failed to encourage specialization in agricultural production along lines of national comparative advantages as intended by the designers of the CAP. Additionally, farm prices were maintained at relatively high levels, which, in turn, kept the price of food at a too high level. Retail margins are increased whenever there is an increase in farm support prices; thus, the benefit of high price supports to farmers is, in general, much smaller than the cost to consumers. The CAP is entirely producer oriented.

Consumers carry a double burden in the form of higher food prices they pay in relation to world market levels and higher taxes they have to pay to finance the CAP.

Cost of the Common Agricultural Policy (CAP)

The CAP is a costly undertaking. The cost of running the CAP has risen to about $16.9 billion (15.7 billion ECU) in 1980 compared with $7 billion in 1976-77. At this level agricultural support accounts for about 72 percent of the Community's budget expenditures. Spending on CAP grew by over 20 percent a year between 1975 and 1980. [Table 3]

Approximately 71.5 percent of the outlay for agriculture went into the guarantee or market support program in 1980. This included expenditures on export subsidies, price support purchases (intervention purchases), storage, and monetary compensations for fluctuations in the exchange rate of member countries' currencies.[1] In 1980 these programs cost the Community $12.2 billion (11.3 billion ECU). The principal reason for the high cost of market support policy is that it provides for guaranteed prices for unlimited quantities generally unrelated to the needs of the market. [Table 3]

There has been a trend toward a proportionately greater expenditure on export refunds rather than intervention due to increased subsidies for the sale of dairy products, beef, pork and wine. Refund expenditures in 1980 accounted for 50.3 percent of total guarantee expenditures compared with 47.7 percen[illegible]n 1979. In recent years the Community has been exporting with the aid of subsidies more than 350,000 tons of butter, 6 million tons of wheat and 2 million tons of sugar.

Dairy support formed 42 percent of total guarantee expenditures and totaled $5.1 billion (4.75 billion ECU) compared with $4.9 billion (4.5 billion ECU)

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[1] Under free market conditions fluctuations in currency values would result in corresponding changes in agricultural prices expressed in national currencies. This would mean lower farm prices in a country with an appreciating currency and higher prices in a country whose currency has fallen in value. In order to prevent market instabilities caused by exchange rate fluctuations a separate rate was introduced for the conversion of common prices into national currencies. These agricultural or "green" rates are fixed annually and do not vary with changes in the market rates of national currencies. The difference between the fixed green rate of currencies and the actual market exchange rate is offset by so-called Monetary Compensatory Amounts (MCA's). The MCA's take the form of a tax on import prices and a subsidy (refund) on export prices of countries whose currencies have appreciated.

Table 3
EAGGF guarantee expenditure, 1978-1980
(million ECU)*

	1978	1979	1980
Cereals	1 112.5	1 563.7	1 669.3
Refunds	831.9	1 184.7	1 174.7
Intervention, of which	280.6	379.1	494.6
- production refunds	117.0	143.3	148.4
- durum wheat subsidy	89.0	115.4	129.0
- storage	72.3	88.9	212.8
Rice	17.9	42.9	58.7
Refunds	16.8	41.7	44.4
Intervention	1.1	1.2	14.3
Dairy products	4 014.6	4 527.5	4 752.0
Refunds	1 565.0	2 087.9	2 745.9
Intervention, of which	2 449.6	2 439.6	2 006.1
- skimmed milk subsidy	1 131.7	1 310.2	1 281.6
- skimmed milk storage	682.1	361.1	20.6
- butter storage	506.1	475.6	439.5
- butter marketing	112.8	154.9	207.6
- dairy co-responsibility levy	- 156.1	- 94.2	- 222.9
- expansion of markets	49.9	110.3	109.4
Fats and oils	324.8	606.0	687.3
Refunds	0.1	1.2	3.7
Intervention, of which	324.7	604.8	683.4
- olive oil aids	143.6	357.8	290.2
- aids for rapeseed and sunflower seed	131.0	202.3	340.4
Sugar	878.0	939.8	575.2
Refunds	640.4	685.1	286.2
Intervention, of which	237.6	254.7	289.0
- storage refund	227.9	240.0	272.6
Beef	638.7	748.2	1 363.3
Refunds	145.4	270.2	715.5
Intervention, of which	493.3	478.0	647.8
- public and private storage	413.0	417.2	504.1
- premiums for re-stocking	76.9	60.3	77.7
herds	76.9	60.3	77.7
Sheepmeat	-	-	53.5
Intervention	-	-	53.5
Pigmeat	45.0	104.9	115.6
Refunds	32.2	78.4	91.6
Intervention	12.8	26.5	24.0
Eggs and poultry (refunds)	38.4	79.5	85.5
Fruit and vegetables	100.7	442.9	687.3
Refunds	47.8	34.5	41.3
Intervention, of which	52.9	408.4	646.0
- fresh produce	49.1	123.4	155.7
- processed products	3.8	284.9	490.3
Wine	63.7	61.9	299.5
Refunds	1.6	4.6	26.4
Intervention, of which	52.3	57.3	273.1
- private storage aid	35.3	22.5	71.4
- distillation measures	10.9	14.5	194.5
Compulsory distillation of wine by-products	9.8	8.9	0.1
Tobacco	216.1	225.4	309.3
Refunds	2.7	3.7	4.5
Intervention	213.4	221.7	304.8
Fishery products	15.4	17.0	23.0
Others			
Intervention, of which	91.2	120.2	115.8
- flax and hemp	15.4	17.6	16.8
- seeds	20.3	30.1	32.0
- hops	11.1	10.1	6.2
- peas and beans for animal feed	-	15.3	27.0
- dried fodder	42.6	46.6	33.5
Refunds for processed products (non-Annex II products)	208.5	252.1	221.3
Total agricultural expenditure	7 765.2	9 732.0	11 016.7
ACAs	27.2	1.1	-
MCAs	880.3	708.4	298.5
Total Guarantee expenditure	8 672.7	10 440.7	11 315.2

*On September 30, 1981: $1 = 0.925 ECU or 1 ECU = $1.08

Distribution of Guarantee funds among member states 1980 (M ECU) (1)

	Belgium	Denmark	Germany	France	Ireland	Italy	Luxembourg	Netherlands	UK	Total (2)
Export refunds	450.5	453.3	1 091.4	1 559.0	357.2	250.0	8.1	1 187.9	338.9	5 696.3
Intervention	130.7	182.9	1 391.4	1 329.7	227.5	1 459.8	3.5	385.4	495.0	5 605.9
Total	581.2	636.2	2 482.8	2 888.7	584.7	1 709.8	11.6	1 573.3	833.9	11 302.2
% 1980	5.14	5.63	21.97	25.56	5.17	15.13	0.10	13.92	7.38	100
1979	7.53	7.25	23.85	23.74	5.49	12.64	0.13	14.31	5.06	100

1) Excluding adjustments for 'exporter pays' system. 2) excluding 13M ECU in direct payments.

EAGGF Guarantee expenditure 1975 - 1980

	1975	1976	1977	1978	1979	1980
Total (M ECU)	4 522.5	5 587.1	6 830.4	8 672.7	10 440.7	11 315.2
Annual % change		23.5	22.3	27.0	20.4	8.4

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Agra Europe, October 2, 1981

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in 1979. A one-percent increase in the output of milk increases the annual budget cost for dairy products by about 5 percent or $216 million (200 million ECU).[1] The bulk of dairy market support expenditure was made on skimmed milk and butter subsidies.

The cost for the support of cereal markets in 1980 amounted to $1.9 billion (1.73 billion ECU) and formed the second largest guarantee outlay category. The cereal market stabilization expenditures represented around 15 percent of total expenditures on agricultural market support. Output in 1980 was 118 million tons with imports of 18 million tons and exports of 15.4 million tons. Increasing production meant an increased export effort to maintain intervention stocks at acceptable proportions. Even so, intervention stocks of grain in the Community rose from 2.7 million tons in 1979 to 6.7 million tons by the end of 1980.

Half of the Community's farms produce beef and expenditure under the guarantee program in 1980 was $1.5 billion (1.36 billion ECU), 12 percent of total agricultural market support expenditures.

The Community's high guaranteed prices and generous output quotas have driven up production so that now the Community has become the world's biggest sugar producer, responsible for a sixth of world exports. In 1980 the Community produced 10.9 million tons of sugar but consumed only about 9.3 million tons so the surplus is being dumped on world markets. The cost of the sugar market support was $621 million (575.2 million ECU).

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[1] Agra Europe, September 18, 1981, p. E/2.

The dairy surplus problem. Table 3 shows the surplus situation the dairy sector imposes the biggest burden on the Community's agricultural budget (EAGGF). Since the beginning of the 1960's milk production has been rising at the rate of 2 percent per annum, mainly due to improvements in the average yield per cow.[1] Over the same period human consumption has slowed and then stagnated in spite of special measures to promote consumption. These measures relate especially to butter, to liquid skim milk and to skim milk powder. Subsidies are used to stimulate domestic consumption of butter, to divert skim milk for animal feeding and to sell these products in foreign markets well below domestic price levels (Table 2). Despite very heavy expenditures on butter subsidies, consumption of butter in the Community has tended to decline over the last ten years while margarine consumption has remained steady with a consequent rise in the share of margarine (because of the smaller total yellow fats consumption). Overall, reduced yellow fats consumption is indicated in all EC countries.

It is now recognized that neither subsidized exports and domestic consumption nor food aid constitute a solution for dairy surpluses.[2]

Dairy exports seem to have reached a limit and attempts to further increase sales is likely to meet increasing competition on international markets. This would make disposal of the increased surplus more difficult and costly. Also, it needs to be recognized that dairy products are not ideal products for food aid as the food deficient countries need grains and rice.[1]

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[1] Milk production has been increasing by more than 3 percent a year for the last five years. The current average milk yield is 4000 kilograms per cow per year for the EC-Nine which, however, is only approximately 73 percent of a commercially possible average yield of 5500 kilograms a year. The yield improvements are due to better breeding, modernization of buildings and equipment, and improved grassland management.

[2] These issues are elaborated under the section dealing with the Vegetable Oils Tax: Issues and Implications.

The Community has also tried production control measures to check the increase in milk production. Most important among these measures is the co-responsibility levy currently fixed at 2 percent of the target price upon all the quantities of milk sold by farmers to dairies for the years 1980/81-1982/83.[2] Basically the co-responsibility levy is intended to make milk producers share the financial responsibility for cutting back production within certain limits. However, as the record shows, the control measures the Community has already put into effect have not been sufficient to discourage further increases in milk production. The dairy surplus is in large part attributable to the high support price for dairy products and the open-ended commitment to intervention buying.[3] Further contributing to dairy surpluses is the close link between beef production and milk production. Measures taken to support prices in the two sectors had a cumulative effect on milk production.

Concerned with controlling expenditures on dairy market supports, the Community is considering a number of corrective measures including (1) modification of existing price support programs;[4] (2) limiting public aid to

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[1] The Community has made great effort to increase food aid in the form of dairy products.

EC Food Aid Shipments of Dairy Products

	1974	1975	1976	1977	1978	1979
			thousand tons			
Skimmed milk powder	47	52	70	97	125	179
Butter oil	32	36	34	42	49	52

[2] It will be levied at a maximum of 0.5 percent on production of less than 60,000 kilograms by producers in less favored areas.

[3] Initially milk support prices were set at levels to provide adequate income to the average producer where the average was heavily weighted toward the small, inefficient producer. Over the years this price support program provided a big incentive to farmers to expand production through modernization and improving productivity.

[4] Part of existing measures which will be retained in any reform scheme are the encouragement of farmers to retire from dairy farming, and continuation of non-marketing and herd conversion premiums.

investments facilitating increased production and processing of milk; and (3) curbing of import and consumption of vegetable oils and fats.

Based on past policy experiences without substantial cuts in the real price of milk to the producer and/or the imposition of output quotas, milk production in the Community will continue to increase at current rates in most member countries. In view of the political influence of the dairy sector in the Community it is unlikely that major changes in the operation of the CAP for dairy products will emerge from the current policy review discussions.

Reform proposals. Numerous proposals have been made over the years for the modification of the CAP, most of which were developed by the EC Commission.[1/] In its June 1981 report, "Reflections on the Common Agricultural Policy," the Commission proposed a series of reforms in the current CAP in order to cope with problems that will follow from Spanish and Portuguese accession. The main thrust of these reforms are to improve efficiency in production and marketing and to place less reliance on price support programs. Additionally, measures are being put forward designed to improve the management of the CAP and to make its present mechanism more cost effective.[2/] As matters stand, the reforms aim at achieving economies within the CAP leaving the principles and mechanisms intact.

The emerging "operational guidelines" for reform include: 1. adoption of a price policy based on narrowing of the gap between Community prices and prices applied by the EC's main competitors; 2. changing of price guarantees in line with Community production targets; 3. operation of a common export policy; 4. limiting imports of nongrain feed ingredients; 5. institution of

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[1/] The European Commission (Brussels) has a twofold role. One is to draw up proposals for Community policy; its second function is to act as executive and secretariat.

[2/] The 1981 deliberations on EC agricultural and budget policies resulted from an accord concluded in May 1980 in response to the British government request for a refund of its excessively high contributions to the EC budget. The EC Commission was then given a mandate of preparing (by mid-1981) proposals for reforms of the CAP and the budget.

a new structures·policy tailored to the needs of individual agricultural regions; 6. introduction of a budgetary limit on total agricultural spending; 7. harmonization of value added tax rates throughout the Community; and 8. general tightening of the system of Community preferences.

The most controversial points will be the scope of price adjustment, surpluses in Mediterranean products and dairy products, imports of cereal substitutes, common export policy, target levels at which co-responsibility for cereals, oilseeds and dairy products should be introduced and level of farm spending.

An additional problem confronting the EC is Greece's intention to renegotiate its relationship, seeking special arrangements if it is to remain in the Community.[1]

Price adjustments. An important aspect of the CAP reform is a gradual narrowing of the gap between Community prices and support prices of other major producers of such commodities as cereals, meats and dairy products.

Prices of cereals would be raised, lowered or left unchanged to the extent that Community production exceeded the agreed production target.[2]

Moderation of cereal prices is the pivot in obtaining more efficient production of major agricultural commodities in the Community. Cereals not only occupy a large part of the Community's arable land but also constitute the major cost for livestock producers. High cereal prices have reduced consumption of feedgrains and created a growing demand for cheaper cereal substitutes such as manioc, corn gluten and soybean meal for use as animal feeds. This reduced demand, in turn, slowed EC imports of feedgrains and forced the Community to use export subsidies to move its surplus grain into world markets.

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[1] Indications are that Greece wants to renegotiate the transitional periods for some agricultural products and for the free movement of Greek workers. It also seeks a change in the balance of Community social policy between north and south to allow for differences in stages of development.

[2] There is also a proposal for encouraging production of crops in deficit, such as corn, by the payment of special premiums.

The Commission is recommending that EC cereal prices be gradually, over the next five years, aligned to the U.S. farm support level. This level is estimated to be about 20 percent below the EC level. The alignment of Community prices to world prices should make EC farm exports progressively more competitive and enable them to compete without the aid of restitutions. Lower prices would also lead to greater internal consumption of domestically produced food. Regarding cereal substitutes, lower grain prices would also reduce their competitiveness on the Community market.

Production controls. The Commission is recommending the establishment of production targets for farm commodities in structural surplus such as cereals, milk, sugar and wine. The targets would be established by a formula based on domestic consumption, necessary carryover stocks and "commercially viable" exports. Production targets would be set for five years beginning in 1983. Countries producing in excess of their agreed targets would be subject to national co-responsibility levies to finance the disposal of surpluses. Such policy would allow member states to limit their own financial responsibility for production increases.[1]

In the dairy sector, the present levels of co-responsibility levy have not been a real disincentive to further increases in production. The Commission's new proposal calls for a basic national co-responsibility levy that would be raised on quantities in excess of the target level. Such special levies are perceived to discourage production and at the same time provide funds to finance the disposal of Community dairy surpluses.

For wine the Commission is putting forward changes in replanting, irrigation controls, and preventative distillation to cope with surpluses after enlargement. Replanting of vineyards would be prohibited on land unsuitable for quality wine and table grape production. Irrigation controls and distillation would also operate to bring about a balance in market supplies among the different qualities and types of wine.

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[1] The Commission's plan follows quite closely that proposed by the French Farmers Union which would tie national budget contribution to production. See Agra Europe, September 18, 1981, p. P/4.

In the fruit and vegetable sector, generally the goals are to give producer groups greater control over marketing and the tightening of quality standards.

Budget issues of 1981. The specific areas that are causing the difficulty are: 1. the budget contribution of each country; 2. the size of expenditure on CAP; and 3. the amounts of aid going to particular regions and industries. There is little doubt that the question of who pays what into and who gets what out of the Community budget is the most difficult problem confronting member countries. Britain and Germany are seeking a reduction in their annual contributions to the Community's budget and which other members are resisting. Once Britain and Germany have achieved a reasonable deal on their financial contributions, progress toward agreement on other issues may be more easily made.

There is now a general acceptance that the CAP is out of control and further increases in spending must either be restrained or additional finances found. The inclination among member countries is that outlays on CAP should be kept within the one-percent value added tax (VAT) ceiling on member country contributions to the Community budget.1/ New policies should only be developed within the one-percent limit by holding down the rise in or by reducing farm spending.

A rise in CAP expenditures may be restrained either by controlling prices or by controlling production or marketing. Price increases could be moderated most directly by limiting annual adjustments in support levels. Alternatively, producer taxes may be applied which would, in effect, reduce the price received by producers.

1/ This position is likely to be re-examined once Spain and Portugal enter the Community.

Proposals have also been advanced for a reduction of the volume of output covered by price support measures as a means for discouraging excess production. Another production limiting measure under consideration is the application of a co-responsibility levy on above-quota sales.

Common Export Policy. In order to foster an increase in the Community's farm exports the Commission has recommended the formulation of a common export policy carried out by an export agency. The new export policy would rely on three mechanisms: (a) special credits; (b) greater use of export subsidies; and (c) long-term bilateral agreements.

Underlying the new export policy is the further expansion of exports so as to maintain the Community's share in world exports through the 1980's at least at the level reached in recent years. This goal implies that the current level of output is regarded as being the base line on which new production targets should be set. The Commission, with the encouragement of France, has proposed the conclusion of long-term bilateral contracts with importing third countries for the supply of agricultural products where the Community is in structural surplus. This option has been advocated for grains as a means of capturing new markets for the Community and to reduce the cereals surplus. The proposal, however, is meeting with opposition from several countries, including the United Kingdom, mainly on grounds that it would serve as an incentive for maintaining high level of cereal production at heavy cost to the budget. In effect, long-term export supply agreements would become vehicles for institutionalized and subsidized surplus disposal.[1/] Only by the alignment of EC prices with those on the world market could this development be prevented.

Proposals were also made for the promotion of exports of processed food products as part of an attempt to integrate the CAP into a policy of general

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[1/] Under this scheme food deficit developing countries would be guaranteed quantities of cereals, dairy products and meat at prices agreed within a bracket either side of expected world prices. In addition, the Commission proposes that soft loans from EC should be used to finance export credits.

economic development. Expanded exports are seen as a means for job creation in EC's agri-foodstuff industry.

Although not part of the proposed export policy, reports surfaced of plans for new port facilities to handle growing Community grain exports.[1] France and the UK, in particular, are making plans for new port facilities to make their grain more competitive in distant overseas markets. Most of the investment would entail the improvement and enlargement of facilities at the existing major ports and construction of grain storage capacity. At present, both French and British export port facilities handle only small boats, thus creating a freight disadvantage for French and British grain.[2]

Cereal substitutes. Of the diverse list of products involved only three, manioc, citrus pulp and corn gluten are of any real significance. All of the cereal substitutes enter with low or nil levies under GATT agreements and thus enjoy a price-competitiveness over feedgrains as livestock feed ingredients/[3] Cereal substitutes, excluding oil meals, made up over 40 percent of feed ingredients in compound feeds in recent years. To counter the prospects of increasing imports of cereal substitutes the Commission has outlined several possible courses of action which the Community might follow in dealing with the problem. These include: maintenance of present situation--unrestricted imports and exporting Community grain surpluses; application of import levies on grain substitutes; restricting imports of substitutes at their present level; lowering of grain prices to improve competitiveness with substitutes; subsidizing the cost of using cereals in EC feed rations; and finally, co-responsibility levy for cereal producers.

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[1] Although the EC countries have some of the best importing facilities in the world, they are ill-equipped for grain exporting on the scale of the last few years.

[2] The average grain load exported from France (Rouen) is 7,000 to 8,000 tons and exports from the UK are in 600 to 2400 ton vessels. Agra Europe, November 20, 1981, p. E/3.

[3] In 1981 the difference between cereal and substitute prices was estimated by the Commission at between 30-40ECU per ton ($32.4-43.20) according to product.

The major goal is to limit use of cereal substitutes and boost that of cereals instead. This would help to reduce subsidized cereals exports with a consequent budgetary saving. Maintenance of the present situation is untenable because the Community may not be able to keep on financing the increased cost of export subsidies.[1] Growing structural surpluses for cereals are forseen by the Commission unless the present system of high producer prices and total protection of the market is changed. The Community has moved from an overall deficit of 10.7 percent in cereals in 1975/76 to a surplus of 4.2 percent in 1980/81. Over this period the wheat surplus has increased from 3 percent to 9.1 percent and the barley surplus from 1.9 percent to 5.4 percent.

Restricting the imports of cereal substitutes is contrary to GATT agreements under which the Community is committed to allow the unhindered imports of these products. Such a move would have serious consequences for EC-third country trade. The Community may attempt the lifting of the agreement made in GATT by (1) negotiating a "deconsolidation" of existing tariff concessions; (2) negotiating voluntary restraint agreements with suppliers; and (3) offering compensatory concession for other commodities of export interest to affected third countries. In November 1980 the Community had already initialed an agreement with Thailand under which Thailand would limit its manioc exports to the EC in exchange for EC undertakings to limit imports from other sources and to help Thailand to diversify its agriculture. Thailand agreed to limit its exports to the Community to 5 million tons annually in 1981 and 1982 and to 4.5 million tons in 1983 and 1984.[2] Negotiations for the deconsolidation of the GATT tariff on manioc has been blocked by vetoes of The Netherlands and

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[1] Assuming that the Community's own finances are not augmented. It is possible that if the Community were no longer able to fund all the required spending, funding would have to be done from national exchequers.

[2] A key element of the agreement is a stipulation that the EC will "take appropriate measures to ensure that Thailand's position on the Community manioc market during the period covered by the agreement will not be significantly undermined by a substantial increase in the quantity of manioc imported from other countries."

Germany. It is within the realm of possibility that the Community will initiate negotiations for a voluntary limit on feedgrain imports from the United States.

The United States is concerned over a recent proposal to tax or limit corn gluten feed imports into the EC. This is because the U.S. is virtually the only supplier of corn gluten feed to the EC and, in turn, the EC is practically the sole foreign market for U.S. corn gluten feed exports. Presently, U.S. corn gluten feed, 40 percent protein or less, enters the Community duty-free under an agreement reached during the Kennedy round (1963-67) of GATT negotiations. Because of this alone, U.S. corn gluten feeds sold in the EC in 1980 cost 32 percent less than corn. Considering that corn gluten feed contains both 20 percent starch and 26 percent protein it is not surprising to find that it became an attractive and economical feed ingredient to compounders.[1/] Limits on these imports would certainly evoke U.S. retaliation against EC exports of agricultural and/or industrial products. Thus, it is unlikely that the Community will take positive action in this field in the near future.

U.S. exports of corn gluten feed and meal

	All destinations		EC
	thousand tons	*million dollars*	*thousand tons*
1971/72	338.0	21.7	327.0
1972/73	731.0	62.2	715.0
1973/74	765.0	86.9	743.0
1974/75	784.0	88.9	765.0
1975/76	977.0	117.5	952.0
1976/77	1364.0	187.8	1323.0
1977/78	1631.0	208.5	1601.0
1978/79	1843.0	290.5	1832.0
1979/80	2461.0	414.0	2456.0
1980/81*	2493.0	405.0	2473.0

* October-August

[1/] The feed equivalency ratio for corn gluten feed and corn is 1.15. That is, the higher nutrient content of corn gluten feed makes it 1.15 times as valuable as corn. In other words, it is worthwhile to pay up to 1.15 times as much for corn gluten feed as for corn.

A reduction in EC cereal prices as an option to improve competitiveness with substitutes has found rather limited support among member states.[1/] To afford satisfactory protection against substitutes the drop in cereal prices would have to be substantial and it is very improbable that it would be politically acceptable.

The proposal to subsidize the cost of using cereals in EC feed rations has met diverse attitudes from member states governments and has now been abandoned.

The cereal substitutes issue highlights the problems of conflicting objectives which arise from the operation of the CAP and the way the Community plans to resolve such conflicts. There is a conflict involved between the interests of Community producers of cereals and of producers and consumers of livestock products. So far this conflict has been resolved in favor of the Community's producers of cereals. On the whole the use of cheaper feed ingredient imports mitigates the producer-consumer conflicts and allows EC consumers to benefit from less expensive livestock product prices.

Aid to small farmers. Given the relatively low level of output the price system was found to be inappropriate for dealing with the income problems of small farmers. With the adjustment of EC support prices toward the world price level, small farmers are expected to suffer income losses and hence will need some form of income support. Four alternative approaches were proposed for aiding farmers below a certain minimum income level: deficiency payments, income supplements, premiums related to support prices and regional aids and social welfare payments.

Among these deficiency payments are generally considered by the Commission as being too expensive and direct income payments as too difficult to administer. Indications are that the Community is leaning toward the granting of regional and social aids for underprivileged areas.

[1/] A reduction in prices could be achieved either by freezing prices or increasing cereal prices to a lesser extent than those prices for other products.

APPENDIX A

Common Agricultural Policy (CAP) for Oils and Fats

The CAP for oils and fats is divided into two major commodity groups: olives and olive products, of which olive oil is the major product; and vegetable oils, animal oils, oilseeds and oilseed products. The main reason for this division is that the EC is about 95 percent, on average, self-sufficient in olive oil following the accession of Greece in January 1981. Excluding olive products, EC self-sufficiency in vegetable oils, oilseeds and oilseed products in 1979 was as follows:

Oilseeds	10 percent
Vegetable oils	8 percent
Vegetable oilcakes	5 percent

Olive oil.[1]

The major aim of the CAP for olive oil is to provide adequate incomes for farmers in the poorer regions of Italy and Greece (and to a lesser extent, France) where all EC's olives are grown. In practice, the policy serves mainly Italy's interest, being the largest producer and consumer of olive in the Community. The olive oil support system consists of four prices: producer target price, representative market price, intervention price and threshold price for the internal market and a variable levy system for trade with third countries. (Appendix Table 1)

The producer target price is set at a level which "is fair to producers" and stimulates a desired volume of production.[2] This is supplemented by a production aid which is a fixed subsidy. It represents the difference between the producer target price and a desired price (referred to as "producer selling price") producers should be able to get for their oil on the market.

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[1] It became effective November 10, 1966.

[2] Producer target prices are set before August 1 for the following year.

The representative market price is set at a level which will permit normal marketing of olive oil produced and keep olive oil competitive with other edible oils. That is, the price is low enough to maintain consumption levels.[1] In calculating the representative market price a ratio of olive oil to competing vegetable oil prices of 2.3:1 is considered desirable.

Distributors of olive oil receive a subsidy to enable them to reduce the price of olive oil to the consumer to the level of the representative market price.

The intervention price is fixed at a level equal to the producer target price minus the production aid and an amount allowing for market flucatuations and for the cost of transporting olive oil from production areas to consumption areas.[2] It is the minimum support price at which intervention agencies step in to buy supplies offered at that price. The price determines the minimum return to producers from the sale of their products.[3]

The threshold price is the minimum import price and is derived from target prices by subtracting the average cost of unloading and transport incurred between the port of entry and the area for which the representative market price is fixed.[4] The threshold price thus assures that imported fresh olives for oil and olive oil sell at the representative market price. To insure orderly marketing through the season, the representative market price, the intervention price and the threshold price are gradually raised by uniform monthly increments. The monthly price increments each year are set in relation to average storage costs and interest charges in the Community.

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[1] The representative market price is to be fixed before November 1 each year for the following marketing year beginning on November 1.

[2] It has to be set before August 1 for the following marketing year.

[3] Large quantities of olive oil have been sold into intervention in recent years.

[4] It has to be set before October 1 for the following marketing year.

Imports of olives for the production of oil and imports of olive oil are subject to variable levies. Also a 20 percent ad valorem customs duty is applied on imported olive oil. Oilcakes and other residues resulting from the extraction of olive oil can be imported free of duty. Import levies are established by a weekly tendering system. For refined olive oil the levy consists of a variable component and a fixed component. The variable component is based on the extraction rates in third countries, whereas the fixed component reflects higher processing costs within the Community and as such protects the domestic industry. A compensatory levy can be applied as an added protection if Community market would be subject to "serious disturbances" from larger than normal imports.

Exports are subsidized if the EC price is above the world market price and, conversely, an export levy may be imposed if the domestic price is below the world market price.

The important olive oil producing countries of the Mediterranean basin received special concessions in the levy imposed on their imports into the Community.

Vegetable Oils, Animal Oils, Oilseeds and Oilseed Products[1]

This policy covers all animal and vegetable fats and oilseeds, oils, oil cakes and meals, marine fats and oils.[2] Four oilseeds--rapeseed, sunflowerseed, flaxseed and soybeans--have been made subject to price support. However, only the former two are the oilseeds produced in substantial quantities in the Community. (Appendix Table 2)

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[1] EC oilseed regulations took effect July 7, 1967.

[2] Excluded are nonhydrogenated land animal products such as lard and tallow. Lard and poultry fat are under the CAP for pork; tallow is not under the CAP.

Rapeseed comprises around 90 percent of total production, with sunflowerseed accounting for most of the remaining 10 percent.[1] The Community is still in deficit for these oilseeds despite a large increase in the production of rapeseed, and there is a strong demand for sunflower oil.(App. T3) However, sunflower seed is produced only in the Southern countries of the Community. Support is provided by means of common target and basic intervention prices. The target prices are fixed annually at levels which provide an adequate return to producers and keep Community production at the desired level.

Community rape and sunflower growers receive a variable production subsidy (deficiency payment) which is designed to bridge the gap between the target price and the world market price. It is suspended when market prices rise above the target level. The value of the subsidy is included in the price which the crusher is able to pay the trader or grower. The market price after deduction of subsidy is below the world price level which, in turn, insures the competitiveness of EC-grown oilseeds.

The intervention prices are set just below the target price level and serve as minimum prices for producers.[2] They also insure that market prices do not fall far below world market levels.[3] But in practice the deficiency payment to crushers has been the effective means of support. There are no threshold prices and imported oilseeds come in duty-free.[4]

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[1] France produces about 70 percent of the Community's rapeseed and Germany close to 25 percent.

[2] Both target and intervention prices are subject to monthly price increases for a period of at least five months beginning with the third month of the marketing year.

[3] Effective July 1977 intervention purchases of rapeseed are limited to varieties with an erucic acid content of less than 10 percent. This is to encourage protection of better quality, since erucic acid purportedly is detrimental to health.

[4] Duty-free entries for oilseeds were established under GATT concessions granted in 1961-62, prior to the CAP.

The CAP relies mainly on the common external tariff as a means of protection and no variable import levies are provided for. There are graduated rates of duties on vegetable oils according to their state of refining and intended use.[1/] Supplementary levies can be imposed on imports of oilseeds and oils when, as a result of subsidies or bonuses granted by third countries, the true price of such products did not correspond to the prices which would be established in the absnece of such measures. A levy might be imposed also when such a situation causes or threatens to cause serious injury to Community production of oilseeds and oils.[2/]

Special arrangements govern the entry of oilseeds and oils exported by countries having preferential status with the Community. These consist of duty-free admission of their vegetable oils and aid, if world prices in specified periods fall below the reference prices. Usually the amount of aid is limited to 80 percent of the difference between world prices and reference prices as well as to the amount that may be given in any six-month period.

Soybeans and products.[3/]

In order to bring about the desired development in soybean cultivation a subsidy was granted to producers at harvest that amounts to the difference between the EC guaranteed or "guide" price and the world price.[4/] The world market price is computed relative to a standard quality and for one border-crossing point of the Community. The subsidy insures that domestic soybeans

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[1/] Duties on vegetable oils range from 3 to 15 percent ad valorem depending on use stage of refinement.

[2/] A levy has on occasion been imposed on lower-priced imports of sunflower oil from Eastern Europe and also on imports of castor oil from Brazil when it was considered that Community crushers were being threatened.

[3/] It went into effect for the crop year November 1974-October 1975.

[4/] Beginning in the 1980/81 marketing year producer subsidy is to be paid on actual production rather than standard yields applied to harvested area (30 quintals per hectare). The subsidy is not being paid directly to the producer; instead, it will be paid to crushers and traders. It is believed that using the subsidy on actual production rather than indicative yields will reward the more efficient producers.

are priced competitively with imported supplies. The guaranteed price is to be established annually prior to August at a level "suitable for the producer and under consideration of the necessary supply of the Community." There is no intervention system whereby the government buys if prices fall below a certain point. Some of the import regulations applied to other oilseeds, however, were extended to soybeans. Thus import duties or levies can be applied when world prices of soybeans are out of line with product prices and related costs in the Community.

Appendix B

Vegetable, Animal and Marine Oils, Oilseeds and Oilseed Products covered by the "Oils and Fats" sector of the Common Agriculture Policy; Application of the Common Customs Tariff

CCT heading No.	Description	Rate of duty	
		Autonomous % or levy(L)	Conventional %
(a) 12.01 B	Oil seeds and oleaginous fruit, whole or broken other than for sowing	Free a)	Free b)
(b) 12.02	Flours or meals of oil seeds or oleaginous fruit, non-defatted (excluding mustard flour)		
	A. Of soya beans	10a)	8
	B. Other	Free a)	-
15.04	Fats and oils, of fish and marine mammals, whether or not refined c)		
	A. Fish-liver oil:		
	I. Of a vitamin A content not exceeding 2 500 international units per gram	6 a)	6
	II. Other		
	- of halibut	Free a)	Free
	- of other fish	Free a)	6
	B. Whale oil and oils of other cetaceans	2 a)	Free
	C. Other	Free a)	Free
15.07	Fixed vegetable oils, fluid or solid, refined or purified, excluding olive oil		
	B. China-wood and oiticica oils: myrtle wax and Japan wax	3 a)	d)
	(- China-wood and oiticica oils, crude)		(3)
	(- Refined or purified oils, other than Japan wax)		(3)
	C. Castor oil:		
	I. For the production of aminoundecanoic acid for use in the manufacture of synthetic textile fibres or of artificial plastic materials	Free a)	Free
	II. Other	8 a)	8
	D. Other oils:		
	I. For technical or industrial uses other than the manufacture of foodstuffs for human consumption *:		
	a) Crude:		
	1. Palm oil	5 a)	4
	2. Tobacco-seed oil	5 a)	Free
	3. Other	5 a)	d)
	(-Ground-nut, coconut, colza, linseed, rape seed, sunflower seed, illipe, karite, makore, touloucouna or babassu oils)		(5)
	b) Other:		
	1. Tobacco-seed oil	8 a)	Free
	2. Other	8 a)	d)
	(-Colza, linseed, rape seed, sunflower seed, illipe, karite, makore, touloucouna or babassu oils)		(8)

CCT heading No.	Description	Rate of duty	
		Autonomous % or levy	Conventional %
	II. Other:		
	a) Palm oil:		
	1. Crude	9 a)	6
	2. Other	14 a)	14
	b) Other:		
	1. Solid, in immediate packings of a net capacity of 1 kg or less	20 a)	-
	2. Solid, other; fluid:		
	aa) Crude	10 a)	d)
	(-Ground-nut, coconut, colza, cotton seed, mustard seed, rape seed, soya bean or sunflower seed oils)		(10)
	bb) Other	15 a)	d)
	(-Ground-nut, cotton seed, soya bean or sunflower seed oils)		(15)
	(-Other oils, excluding oils containing 50% or more by weight or free fatty acids and excluding palm kernel, illipe, coconut, colza, rope seed or copaiba oils)		(15)
15.12	Animal or vegetable oils and fats, wholly or partly hydrogenated, or solidified or hardened by any other process, whether or not refined, but not further prepared c)		
	A. In immediate packings or of net capacity of 1kg or less	20 a)	-
	B. Other:	17 a)	d)
	(-Fats and oils of fish or marine mammals, hydrogenated, whether or not refined, but not prepared)		(17)
15.13	Margarine, imitation lard and other prepared edible fats	25 a)	25
15.17 BII	Residues resulting from the treatment of fatty substances or animal or vegetable waxes, excluding those containing oil having the characteristics of olive oil		
	a) Oil foots and dregs; soapstocks	7 a)	5
	b) Other	2 a)	2
23.04 B	Oil cake and other residues (except dregs) resulting from the extraction of vegetable oils, excluding oil cake and other residues resulting from the extraction of olive oil	Free	Free
(c) 15.07 A	Olive oil	20 (L)	-
(d) 07.01 N	Olives, fresh or chilled		-
	I. For uses other than the production of oil*	7	-
	II. Other	7 (L)	-
07.02 A	Olives (whether or not cooked), preserved by freezing	19	19

CCT heading No.	Description	Rate of duty	
		Autonomous % or levy (L)	Conventional %
07.03 A	Olives provisionally preserved in brine, in sulphur water or in other preservative solutions, but not specially prepared for immediate consumption		
	I. For uses other than the production of oil*	8	-
	II. Other	8 (L)	-
ex 07.04 B	Dried, dehydrated or evaporated olives, whole, cut, sliced, broken or in powder, but not further prepared	16	16
(e) 15.17 B1	Residues resulting from the treatment of fatty substances or animal or vegetable waxes, containing oil having the characteristics of olive oil		
	a) Soapstocks	7 (L)	-
	b) Other	2 (L)	-
23.04 A	Oil cake and other residues resulting from the extraction of olive oil		
	I. Containing 3% or less by weight of olive oil	Free	-
	II. Containing more than 3% by weight of olive oil	Free (L)	-

Notes: The 'autonomous' rates of duty are those which were introduced at the start of the Common Customs Tariffs for the Community. The 'conventional' duties (or duties resulting from conventions) are applicable to imported goods originating in countries which are Contracting Parties to the General Agreement on Tariffs and Trade (GATT) or with which the EEC has concluded agreements containing the 'most-favoured-nation' tariff clause. But with the lack of a common trade policy, the conventional rates are in fact applied to goods originating from any Third Country. Where no conventional duty is shown or where the conventional duty is higher than the autonomous rate, then the autonomous rate is applied. Not shown in the table are special autonomous customs duties in respect of goods originating in certain countries and preferential customs duties applicable in pursuance of agreements.

*Entry under this subheading is subject to conditions to be determined by the competent authorities

a) In certain conditions, the collection of a compensatory amount is provided for in addition to customs duty

b) Ground nuts and castor seed not covered by a GATT concession

c) The EEC Commission's 'Oils and Fats' Division has some responsibility for marine oils, but for all practical purposes it deals with vegetable products.

d) Only certain specified subheadings are covered by a GATT concession; the subheadings and rates are included in brackets.

Appendix Table 1. EC Prices for Olive Oil

[Units of Account (UA) per ton and European Currency Unit (ECU) per ton][1]

Price[2]	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Production target	1152.50	1152.50	1152.50	1187.50	1247.00	1371.70	1440.30	1850.00	1850.00	1877.80	1915.40	2350.36	2479.70	2727.70
Representative market	721	721	721	783	796	950.00	1018.60	1499.60	1448.90	1419.10	1207.80	1470.00	1450.00	n.a.
Intervention	730	648.50	648.50	710.50	723.50	877.50	946.10	1427.10	1376.40	1346.20	1411.40	1731.91	1801.20	1963.30
Threshold	707	707	707	742	782	930	998.60	1469.60	1418.90	1389.10	1454.30	1449.60	1427.90	n.a.
Production aid[3]	431.50	431.50	431.50	431.50	451.00	421.70	421.70	421.70	421.70	421.70	431.10	529.00	558.10	600.00

Prices are increased by monthly increments to insure normal disposal of Community production. For 1980-81, monthly increments were 14.2 ECU's.

[1] Expressed in UA's for 1966-67 through 1978-79; in ECU's from 1979-80. 1 UA = $1 prior to 1970; 1 UA = $1.20 during 1973-76; 1 ECU = $1.10 Sept. 1981.

[2] Season: November 1 - October 31.

[3] Fixed subsidy intended to make up the difference between the production target price and the price producers ought to be able to get for their oil on the market.

Appendix Table 2. EC Prices for Oilseeds

[Units of Account (UA) per metric ton and European Currency Unit (ECU) per ton][1]

Price[2]	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Rapeseed and colza														
Market target price	202.50	202.50	202.50	202.50	208.50	210.60	230.00	255.30	275.70	285.30	296.70	364.08	386.90	425.60
Intervention price	196.50	196.50	196.50	196.50	202.50	204.50	223.30	247.90	267.70	277.10	288.20	353.64	367.70	397.12
Sunflower seed														
Market target price	202.50	202.50	202.50	202.50	210.50	212.60	236.70	265.10	286.30	307.80	323.20	396.60	426.30	477.50
Intervention price	196.50	196.50	196.50	196.50	204.50	206.50	229.60	257.40	278.00	298.90	313.80	385.06	400.50	440.60
Soybeans														
Guide price[3]							233.10	261.10	285.00	306.40	321.70	394.76	420.50	462.60
Flax seed														
Guide price									290.00	311.80	324.30	397.94	421.80	464.00

[1] Expressed in UA's for 1966-67 to 1978-79; in ECU's from 1979-80.

[2] For rapeseed, the marketing season is July 1 - June 30; for sunflowerseed, September 1- August 30; for Soybeans, November 1-October 31.

[3] Subsidy is being paid to first purchasers of Community soybeans equal to the difference between the guide price and the world market price.

STATEMENT OF

NATIONAL SOYBEAN PROCESSORS ASSOCIATION

BY

SHELDON J. HAUCK
PRESIDENT

Good Morning, Senator Percy. My name is Sheldon Hauck and I am President of the National Soybean Processors Association. Appearing with me today on this panel are Mr. Allen Aves, immediate Past Chairman of the American Soybean Association, Mr. Jerry Gates, President of the Land of Lincoln Soybean Association, and Dr. Steven Schmitt, Professor of Agricultural Economics at the University of Illinois.

I am sure that I speak not only for the members of this panel, but also for the industries which we represent, soybean growers and processors alike, in expressing our heartfelt appreciation to you for your keen interest in the critical international trade problems facing the American soy complex as shown by your initiative in having this hearing today.

The organization which I represent, the National Soybean Processors Association, is the trade association of America's soybean processors. Our members process and market more than 95% of all soybeans crushed within the continental United States. From nearly 80 processing centers in every major region of the country, NSPA members serve the American agricultural community, American consumers, and world markets.

During the most recent marketing year ending September 30, 1981, over one billion bushels of the 1.8 billion bushels harvested in the United States moved through the processing plants of our association's 23 member firms. Approximately 56% of our nation's soybean crop is bought and processed by NSPA members.

International trade is vital to the economic health of our nation's soybean growers, processors, and exporters. Of a 1.8 billion bushel crop harvested during the 1980/81 marketing year, having an aggregate value of $13.7 billion, the U.S. exported 720 million bushels of soybeans valued at $5.4 billion, 6.8 million short tons of soybean meal valued at $1.5 billion, and 1.5 billion pounds of soybean oil valued at $345 million, for an aggregate export trade value of $7.2 billion. Exports represented approximately 40% of the soybean crop, 28% of the soybean meal, and 13% of the soybean oil production.

However, the 1980/81 trade performance is down from the 1979/80 performance on all counts. Exports of soybeans declined by 155 million bushels, exports of soybean meal declined by 1.1 million short tons, and exports of soybean oil declined by 1.2 million pounds. The total export dollar loss for the 1980/81 marketing year as compared to the 1979/80 marketing year was approximately $1.5 billion.

To be sure, while changing export performances from year to year can often be explained by changing economic conditions, unfair trade policies of foreign governments and organizations have distorted our international export markets and negatively impacted the U.S. share of those export markets. What's more, ominous protectionist developments in Europe and unfair subsidies in South America portend a much greater negative impact upon U.S. soy complex exports in the future if they are not vigorously opposed by our government and arrested in their incipiency.

I would like to discuss with you today the three trade policy developments abroad which have given our industry great concern over the past several years and which we confront with the greatest of urgency today. Specifically, I refer to (1) restrictions on the domestic consumption of soybean oil imposed by the Government of Spain through quotas and pricing policies, (2) proposals by the European Economic Community for a tax on vegetable oils and fats, and (3) subsidization of soybean meal and oil exports by our South American competitors, Brazil and Argentina. Since these developments are worsening, rather than improving, I shall also suggest what needs to be done by U.S. trade officials to effectively come to grips with these problems.

Spanish Protectionism

Our problem with Spain stems from the initiation by Spain in 1975 of a domestic quota on the amount of soybean oil which can be sold in Spain, a quota which has been set at progressively lower levels over the past five years. As a result, soybean oil now only represents 12% of Spanish vegetable oil consumption, less than half of what it was 10 years ago. In addition, since Spanish domestic consumption of soybean oil is restricted, most of the soybean oil produced by Spanish crushers must be exported to third countries.

While Spain produces only 1% of its soybeans and imports most of its beans from the United States, the U.S. had a reasonable expectation that the oil component of U.S. beans crushed in Spain would be allowed to be sold in Spain.

However, Spain acted to protect domestic producers of olive oil and sunflower oil through establishment of this quota system. Not only does this system deprive the U.S. of a natural Spanish domestic market for soybean oil produced in Spain from U.S.-origin soybeans, but also it distorts international trade patterns by displacing markets for U.S.-origin soybean oil in third countries.

This international trade distortion effect is exacerbated by a Spanish pricing system for soybean oil which subsidizes Spanish crushers' margins on domestic soybean oil sales by approximately $100 per metric ton. This subsidy enables Spanish crushers to be extremely price competitive vis-a-vis the United States on soybean oil which has been purposely diverted to third country export markets.

As a result of these practices, Spain has been able to steadily increase its share of the total world market in soybean oil from 8.1% in the 1976/77 marketing year to 17% in the 1980/81 marketing year. To illustrate the effect of the Spanish practices in concrete market situations, we turn to three examples in North Africa and the Middle East--Turkey, Morocco, and Tunisia, where Spain has been able to increase it soybean oil exports by 223%, 229% and 332%, respectively, over the 1976-1980 period.

The Spanish-European Connection

While the impairment of U.S. trade benefits through Spanish restriction of our access to their domestic market for soybean oil crushed in Spain from U.S.-origin soybeans is troubling enough, and U.S. loss of third country export markets by virtue of Spain's unfair and protectionist scheme even more troubling, what's most disturbing to us transcends the nullification and impairment of our trade advantages which we are currently experiencing at the hands of Spain. What's most disturbing to us is the probable effect of the Spanish system upon Spanish accession to the European Economic Community.

Indeed, if Spain is permitted to accede to the EEC with its quota and subsidy system intact, the EEC will be provided with an extremely dangerous precedent for adopting the same or similar procedures throughout the Community. While ostensibly the EEC would adopt such a system to deal with structural excesses in olives and olive oil occasioned by the accession of Greece, Spain and Portugal to the Community, more fundamentally the EEC would utilize such a system to obviate or negate the zero-duty bindings enjoyed by the United States on exports of U.S.-origin soybeans and soybean meal into the Community.

The EEC agreed to a zero-duty binding on soybeans and soybean meal imports during the Dillon Round of Multilateral Trade Negotiations. Since soybean meal in combination with manioc imported from Thailand has a price advantage for livestock feed in the EEC over grains grown within the EEC, U.S. exports of soybeans and soybean meal to the EEC have flourished over the last two decades. For instance, during the 1979/80 marketing year, $3.7 billion, or 43% of U.S. export earnings from the soy complex, came from the EEC.

The potential loss of a $4 billion export market by the United States is of grave concern. If the practices which the United States is currently experiencing with Spain are permitted to spread throughout the EEC, we can expect significant declines in U.S. exports of soybeans and soybean meal to the EEC as well as worldwide disruption of U.S. export markets for soybean oil in third countries as the EEC diverts its subsidized production abroad.

As you can see, the stakes are high and the United States cannot run the risk of significantly undermining its own export performance by permitting the EEC to nullify or impair the duty-free access of U.S.-origin soybeans and soybean meal to the European market. Although the United States supports the accession of Spain to the EEC to promote European cohesion, the American soy complex--farmer, processor, and exporter--must not be forced to pay a $4 billion price for that support.

What Needs To Be Done

Given the underlying importance of our dispute with Spain for our entire European trade and worldwide markets, our industry was heartened when the U.S. Trade Representative's Office filed a GATT complaint against the Spanish system on their own initiative in 1979. Although our industry repeatedly offered our assistance to USTR, we were repeatedly assured by them that the Spanish system was a clear-cut violation of GATT and that the U.S. would win the case before a GATT Panel. When the GATT Panel rendered a decision unfavorable to the U.S. in December 1980, we were naturally astounded. Since that time we have endeavored to find out why the result reached by the GATT Panel was so at odds with what USTR assured us would be the result.

First and fundamentally, it is apparent to us that USTR charged with the successful prosecution of this case before the GATT, initially did not understand or appreciate its full ramifications and significance. This is reflected not only in the documents filed by the U.S. with the GATT Secretariat, but also in the relatively low level of official representation before the GATT. In addition, following the unfavorable Panel Report, it has not been apparent to us that USTR has undertaken efforts at an appropriately high level to ensure (1) that the GATT Panel Report is utterly discredited before the GATT Council and (2) that the U.S. and Spain initiate serious negotiations to phase out the Spanish system prior to Spain's accession to the EEC.

Second, it appears to us that the USTR did not effectively prosecute the case before the GATT in Geneva. We are reliably informed that the Europeans, understanding the significance of this case, gave their full assistance to the Spanish, and that they effectively "lobbied" the GATT Panel. The United States Government, on the other hand, proceeded on its own, did not take advantage of the assistance and expertise offered by the affected U.S. industry, lobbied no one in Geneva, and made no effort to line up support for the U.S. position in Europe prior to the publication of the panel report.

When we came to these conclusions last Spring, we immediately began sounding alarms at high levels and key industry officials met with Ambassador Brock and Secretary Block, among others. We are very heartened by their strong support and the efforts which they initiated. However, we would have hoped that greater efforts would have been undertaken by the United States over the past four months to follow through on those initiatives at the foreign ministerial and ambassadorial level in foreign capitals to line up firm support for the U.S. position in order that the GATT Panel Report may be thoroughly discredited in the GATT Council. Instead, USTR subordinated the resolution of the U.S. soy complaint against Spain to the 10-year old DISC case. Only just last week, have our officials begun to do what is necessary in foreign capitals at the level of representation necessary.

Clearly, in light of the magnitude and importance of this case, continued high-level involvement and commitment by the U.S. is necessary to press for the successful resolution of this case on two fronts: First, the GATT Panel Report must be thoroughly discredited in the GATT Council on November 3. The U.S. should seek strong and firm commitments from other countries to support the U.S. position through effective U.S. representations in foreign capitals at the ambassadorial and foreign ministerial level. Second, once the GATT case has been resolved, the U.S. should press for a negotiated phase-out of the Spanish practices prior to Spain's accession to the EEC. In our industry's view, this matter deserves Cabinet-level attention at a minimum. To do less, in our opinion, will jeopardize continued zero-duty access for U.S.-origin soybeans and soybean products into the EEC.

EEC Proposals for a Tax on Vegetable Oils and Fats

Turning briefly to the second major trade policy development abroad which gives our industry great concern, the EEC Commission perennially proposes some form of a tax on vegetable oils and fats whenever they do their arithmetic on what the Common Agricultural Policy is costing them and what it will cost them when Greece, Spain and Portugal all become full members of the Community. Due to the costs of subsidizing the structural surpluses of olive oil which will exist, the EEC Commission, in casting about to find some means to transfer socioeconomic costs of their agricultural policies abroad, periodically settles on the vegetable oil tax idea.

When last proposed in the Spring of 1980, the tax took the form of a $140 a ton levy on vegetable oils and fats. As described at that time in the German press, the tax was intended as a multi-purpose weapon-- (1) to procure necessary funds for the EEC Commission's agricultural subsidy fund and supply the Community with more revenue, (2) to artificially raise the price of margarine and vegetable oil to promote the competition of butter and protect the dairy farmers (3) to make farmers' soybean meal economically unpalatable for livestock feed so that they will feed their stock more grain grown in the EEC, thereby securing a larger domestic market for EEC farmers, and (4) to protect expensive olive oil from competition when Spain, Portugal, and Greece become full members of the Community.

Recently, the Community considered a new proposal to tax vegetable fats and oils. Clearly, such a tax, if adopted, would affect the consumption of soybean oil crushed in the EEC from U.S.-origin beans and discourage the utilization of soybean meal in feed formulation. Accordingly, such a tax represents a clear nullification and impairment of the zero duty bindings on soybeans and soybean meal obtained by the United States from the EEC during the Dillon Round of Multilateral Trade Negotiations. In the final analysis, the EEC is asking the American farmer to pay for the costs of its own subsidization of uneconomic production. As we indicated earlier, the loss of a $4 billion United States export market is at stake. Our trade officials must vigorously oppose this effort to seriously erode U.S. exports.

What Needs To Be Done

Our industry applauds Secretary Block's strong statements of opposition to the EEC vegetable oil tax proposals during his trip to European capitals last Spring. Coming from the largest soybean-producing state in the country and being a soybean grower himself, the Secretary fully understands the full import of the proposed tax. At this juncture, we believe that the following actions must be taken to follow through on the Administration's excellent beginnings:

First, the Administration should make clear its commitment that the zero-duty bindings on soybeans and soybean meal into the EEC are inviolable, are not subject to negotiation, and will be vigorously safeguarded by the United States. This is a matter for Cabinet level attention.

Second, strong U.S. opposition to any renewed vegetable oil tax proposals must be made known in the capitals of EEC Member States at the foreign ministerial and ambassadorial level.

Third, the U.S. should encourage other exporting countries which would be negatively affected by the EEC tax to also make their opposition known.

To fail to take these actions would send a signal to Brussels that United States trade policy is adrift and that the Community's turn towards greater restrictionism and subsidization will be countenanced by the U.S. The American farmer cannot afford such a failure of U.S. trade policy. Neither can our nation's export performance nor U.S. foreign relations with the Community afford such a policy failure.

Brazilian and Argentine Export Subsidies

But our industry's foreign trade policy concerns do not stop with the EEC. We have long been beset with a variety of subsidies for exports of soybean meal and oil by our South American competitors, Brazil and Argentina.

The United States, Brazil, and Argentina have together supplied over 95% of the world export market in soybeans over the past five years. During that period, the U.S. share of that market has remained relatively constant at approximately 80%. However, the respective U.S. and Brazilian shares of the world export markets in soybean meal and oil have shifted during that period, largely due to Brazilian differential export tax and preferential financing schemes which encourage exports of soybean products over raw beans.

Accordingly, Brazil, having a 14.1% share of world soybean exports in the 1976/77 marketing year, declined to 3.6% in 77/78, and 2.3% in 78/79, and remained low at 4.3% in 79/80, and 6.6% in 80/81. In contrast, Brazilian meal exports surpassed U.S. exports in 1977 and--but for poor Brazilian performance in 1978 and 1979 and the large U.S. crop and crush in 1979--have continued to grow. In the marketing year ending September 30, 1981, Brazil held 41% of the world export market in soybean meal, versus the 33% for the United States. Generally, the same can be said for the comparative export performance of the United States and Brazil in soybean oil; however, both countries' market shares have been negatively affected by the Spanish quota and subsidy system which I described earlier. Suffice it to say, however, that Brazil captured 37% of the world export market in soybean oil in the 1980/81 marketing year compared to 31% for the United States.

Unlike Brazil, Argentina has tended to trade in raw beans rather than soybean products. However, in 1980 the Argentine Government instituted a system of export rebates on soybean oil and soybean meal, which, if unopposed by the United States, in the future will have the same effect as the Brazilian subsidies have had over the last five years, namely, the continuing erosion of the United States' share of world markets in soybean products. Since our industry buys most of the American farmer's soybean production, such a loss by the United States in the world market share for soybean products ultimately translates into a loss in American farm income.

What Needs To Be Done

Unfortunately, it has been very difficult for both our industry and our government to come to grips with the Brazilian and Argentine subsidy schemes. It seems that we're dealing with a moving target that changes every time the mimeograph machine turns out a new revision of the export tax differentials, financing preferences, and export rebates. At the same time, however, it does not appear to us that USTR has devoted adequate efforts towards coming to grips with these problems despite our repeated requests that they do so. We strongly believe that the Administration should commit itself to negotiating bilateral phase-outs of the Brazilian and Argentine subsidy schemes. At this time, however, it does not appear that it has even begun to gather the information necessary to understand the nature and extent of those schemes and their effects upon U.S. export markets.

It should be noted that such a commitment and action by the Administration is not an impossible mission. In 1976, under the leadership of then-Secretary of the Treasury William Simon, the United States and Brazil reached an agreement whereby Brazil phased out the particular export subsidies on soybean oil which were then being applied. We need similar action by alert U.S. trade officials today.

Conclusion

In closing, Senator Percy, I hope that our industry's views on the key trade policy issues facing us will be helpful to your Committee's continuing inquiries. Indeed, such bread-and-butter trade policy issues, when left to fester, eventually become critical foreign policy questions.

With respect to the European Community, we share Secretary Block's concern "about developments that might lead to greater instability in world trade and greater restrictionism in the European market. We are concerned with the Community's future relations with the United States both as a market and as a competitor." With respect to the Brazilian and Argentine practices which we have described, we believe that this principle applies--"Trade that is not fair cannot long remain free." Finally, in light of our experience with the U.S. foreign trade policymaking apparatus in addressing these critical trade matters, it appears to us that our own government has been short on action and understanding and that U.S. trade policy in the agricultural sector has been dangerously adrift in recent years.

The American farmer cannot be made to pay for continuing failures of the American foreign trade policymaking process. Nor can our Nation's balance of payments tolerate a failure of the magnitude which is on the horizon if the matters which we have described are not effectively addressed by our foreign trade policymakers.

We would be happy to supply for the record any additional information which you may wish on the matters which we have testified today. Our industry stands ready and willing to cooperate with you and with your Committee in any way possible to see to it that these critical foreign trade policy issues are effectively addressed by our government.

Thank you very much for your time and interest.

* * *

TESTIMONY

of

THE AMERICAN SOYBEAN ASSOCIATION

Presented By

Mr. Allan Aves
Immediate Past Chairman

Mr. Chairman:

I am Allan Aves, a farmer from Kirkland, Illinois, where I produce soybeans, corn, and hogs. I appear here today in my capacity as immediate past Chairman of the Board of the American Soybean Association. We very much appreciate your having this hearing in the nation's largest soybean-producing state to seek public comment on three major foreign trade concerns of American soybean producers. Specifically, I refer to the internal vegetable oil consumption quota of Spain, the threat of the European Community (E.C.) to place a tax on vegetable oils, and the E.C.'s consideration of import quotas on corn gluten feed. As a representative of the nation's soybean producers I will confine my remarks to the first two threats to American farmers.

ASA is a national, non-profit, volunteer, farmer-controlled, single commodity association organized to assure the opportunity for a profitable soybean industry. ASA has approximately 20,000 dues-paying members and is supported by over 460,000 soybean farmers who voluntarily invest in ASA programs through 23 separate soybean checkoff programs. ASA seeks to assure soybean profitability primarily through foreign market development, research, and grower and public education.

Exports are the lifeblood of the American soybean industry. In 1980 American soybean producers saw over 55 percent of their production exported at a value of $8.6 billion, the largest of any commodity and fully 20 percent of total U.S. agricultural exports. Strong export markets are essential to the prosperity of our industry and we believe maintenance and expansion of soybean exports should be a high priority of the U.S. government.

Unfortunately, we stand to lose much of our export market for soybeans because of protectionism on the part of Spain and the European Community and what we perceive to have been a lack of commitment on the part of the U.S. Government to countering that protectionism. We hope that this hearing will call attention to the threats to our industry and spur invigorated efforts on the part of the U.S. Government to stave off those threats.

In the Spanish vegetable oil consumption quotas, I will leave the chronology and detailing of that case to the National Soybean Processors Association. While ASA joined NSPA in seeking efforts by the U.S. Trade Representative to eliminate those quotas, NSPA has monitored the case more closely than have we. The important fact is that Spain is using what we believe to be discriminatory and illegal internal consumption quotas to force the subsidized export of over 400,000 mt of soybean oil produced in Spain from soybeans imported largely from the U.S. Rather than allow the soybean oil to fairly compete with Spanish olive oil, the Spanish have chosen to adopt the protectionist quotas and provide its processors with subsidies that have allowed Spanish soybean oil to take away large U.S. soybean oil markets in North Africa and elsewhere. Coupled with the subsidized soybean oil exports from Brazil, the Spanish soybean oil exports have greatly reduced U.S. soybean oil exports and resulted in substantial losses to American farmers.

As you are aware, Chairman Percy, the U.S. filed a formal complaint against the Spanish oil quotas in GATT in 1980, but in one of the most unfathomable decisions of that body, a GATT panel ruled against the U.S. in December of 1980. Unless that highly questionable GATT panel decision is reversed by the full GATT Council, the precedent could allow other nations or the European Community to adopt similar quotas in order to protect their inefficient domestic vegetable oil industries. With Spain expected to accede to the E.C. later in this decade it is especially critical that the GATT panel decision be reversed or there is every likelihood that the E.C. will adopt a similar policy.

Aside from repercussions of the Spanish oil case, we face a more immediate threat to our soybean exports to the European Community in the form of a vegetable oil tax under consideration by the E.C. Agriculture Council. In 1962 during the Dillon Round of multilateral trade negotiation the U.S. negotiated a zero GATT binding on soybeans and soybean products with the E.C. That concession was bought and paid for with concessions by the U.S. Put simply, the zero binding means that the E.C. cannot impose duties or levies against U.S. soybeans and products without violating its GATT commitments and incurring retaliation by the U.S. We believe a tax on vegetable oils by the E,C. would violate the spirit as well as the letter of the zero binding.

It is important to stress the enormous stake U.S. soybean producers and the nation, in general, has in exports of soybeans and products to the European Community. When the E.C. zero binding was negotiated in 1962 U.S. soybean and product exports to the E.C. totaled less than $100 million. With the open trade door provided by the zero binding, and an aggressive farmer-financed export promotion program in cooperation with the Foreign Agricultural Service, U.S. soybean farmers have seen the E.C. grow to become their largest customer. Since 1969 U.S. soybean farmers, FAS, and the soybean industry have invested over $25 million in our market development effort. U.S. soybean and product exports to the E.C. in 1980 totaled $3.8 billion, the largest to any region and about 40 percent of our total exports. The huge increase came because European feed manufacturers found they could purchase levy-free soybean meal, mix it with levy-free cassava and other non-grain feed ingredients, and produce a feed equal in value to that made totally from E.C. grains, but at a much lower price. As the internal price support levels of the E.C. have increased over the years, U.S. soybean-based feeds have become increasingly competitive.

Unfortunately for us, many in the E.C., particularly the French, have begun to blame escalating soybean imports as the greatest cause for the fantastic escalation in the cost of the E.C.'s Common Agricultural Policy. They claim that the lower-priced soybean-based feeds have stimulated excessive production of milk in Northern Europe and resulted in surplus buildup of butter and dried milk powder. They also claim that the margarine produced from soybean oil is reducing demand for butter and further contributing to the E.C.'s dairy surplus. Finally, the critics of soybeans claim that soybean-based feeds are reducing demand for E.C. coarse grains and necessitating higher E.C. outlays for price supports and export subsidies.

To supposedly rectify the "soybean problem" a proposal has been advanced in the E.C. to impose a tax on vegetable oils. It is unclear if the proposed tax would apply to all vegetable oils or just to those produced from imported oilseeds. The tax would serve as a source of revenue for financing the Common Agricultural Policy and reduce the competitive advantage of margarine over butter.

Senator Percy, the Spanish oil consumption oil quotas and an E.C. vegetable oil tax threaten to permanently damage America's soybean industry. Our industry is market oriented and heavily dependent on liberal world trade. A rise in protectionism will strike at the heart of the success of soybeans and have serious impact on U.S. export value. We believe that the Spanish oil case and the E.C. vegetable oil tax should be escalated to the highest priority and to the highest level in the Reagan Administration.

When Japanese automobile import quotas were being considered, they became one of the major items on the national agenda. Enormous amounts of attention were paid to auto import curbs by the Congress, the media, the numerous agencies of the Executive Branch, including President Reagan himself. We contend that the threats to the soybean exports are just as crucial to the U.S. economy. Yet, with the exception of USDA and the U.S. Trade Representative, the Spanish oil case and the E.C. vegetable oil tax proposal have not been considered important to the Executive Branch. They are considered insignificant. We think that is a profound failure of the government process and one which deserves attention. Agricultural exports are enormously important to U.S. prosperity and we believe maintenance and expansion of those exports should be more important to the Government.

We must, in all fairness, applaud USDA Secretary John Block and Ambassador Bill Brock for their aggressive efforts on the E.C. vegetable oil tax. Both have made public statements apprising the E.C. that the U.S. would consider a vegetable oil tax to be an undermining of the zero soybean binding and its imposition would result in swift and strong retaliation by the U.S. Hopefully, that signal will be enough to thwart the imposition of the tax.

We have not been as pleased with the handling of the Spanish oil case. We continue to believe that higher level efforts should have been made on the part of the Reagan Administration to seek the elimination of the Spanish oil consumption quotas and avoid the possibility of the GATT ruling such quotas to be legal in the context of international trade rules. No doubt the Spanish would have extracted a heavy price from the U.S. for eliminating the quotas, but that price would have surely been less than the cost we will suffer through the loss of much of our soybean markets in Europe and elsewhere if the panel decision is allowed to stand. We know how sensitive our relations with Spain are considering our naval bases there, but must farmers always be the ones to pay the costs of our foreign policy.

We believe that it is high time that our foreign policy becomes more of a servant to the export trade interests of farmers, rather than the shackle it has been in the past. Rather than attempting to achieve foreign policy objectives through a totally ineffective embargo, why can't we use our foreign policy leverage in a positive way to maintain and expand our exports. One costs America farmers money, the other helps to make them money. We prefer the latter.

In conclusion, Mr. Chairman, we cannot stress enough the enormous importance of the outcome of the Spanish vegetable oil GATT case and the proposed E.C. vegetable oil tax. Our very livelihood as soybean producers depends on favorable dispositions of both threats. We ask for your help in achieving those positive settlements.

Thank you.

ALLAN AVES
Immediate Past Chairman
AMERICAN SOYBEAN ASSOCIATION

ADDITIONAL COMMENTS ON EUROPEAN THREATS TO U.S. SOYBEAN EXPORTS

October 16, 1981
Urbana, Illinois

THERE IS ONE ADDITIONAL COMMENT I WANT TO ADD, SENATOR, REGARDING THE VEGETABLE OIL TAX. I CALL SPECIFIC ATTENTION TO IT SINCE IT IS A RECENT DEVELOPMENT AND IS NOT IN THE COMMENTS SUBMITTED EARLIER ON THE OFFICIAL PROCEEDINGS. LAST WEEK THE EUROPEAN COMMUNITY ANNOUNCED THAT THERE WOULD BE NO FURTHER CONSIDERATION OF THE VEGETABLE OIL TAX AT THIS TIME. THEY STATED THAT PERHAPS IT WOULD BE DISCUSSED IN CONJUNCTION WITH THE SPANISH ASCENSION TALKS WHICH MOST OBSERVERS FEEL WILL BE AT LEAST 4 or 5 YEARS HENCE. I WOULD FURTHER ADD THAT MANY OF THE E.C. COMMISSIONERS AND OTHER MEMBER COUNTRY OFFICIALS FEEL VERY STRONGLY THAT THE AMERICAN SOYBEAN ASSOCIATION AND THE CURRENT ADMINISTRATION HAVE OVER-REACTED TO THIS ISSUE WHICH THEY FEEL IS NONE OF OUR CONCERN. THE FACTS ARE THAT THE COST OF THE COMMON AGRICULTURAL POLICY (CAP) HAS BECOME SO BURDENSOME AND UNWIELDLY FOR THE E.C. THAT THEY ARE EXPLORING EVERY POSSIBLE WAY TO REDUCE ITS COST OR INCREASE THE INCOME TO SUPPORT THE HIGHER COSTS. I WOULD MERELY POINT OUT THAT IN OUR OPINION EVERY EFFORT WILL BE MADE BY THE COMMUNITY TO SHIFT THIS COST TO OTHER SECTORS OF THE WORLD TRADING COMMUNITY. SUCH ACTIONS ALL HAVE THE POTENTIAL IMPACT OF MAKING U.S. AGRICULTURAL PRODUCERS LESS COMPETITIVE AND RAISE SERIOUS QUESTIONS WITH REGARD TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT). I WOULD SUBMIT, MR. CHAIRMAN, THAT THE BASIC ISSUE IS NOT YET RESOLVED AND THAT WE HAVE SURELY NOT OVER-REACTED.

TESTIMONY OF JERRY GATES, PRESIDENT, LAND OF LINCOLN SOYBEAN ASSOCIATION, TAMORORA, ILL.

SENATOR PERCY,

I AM JERRY GATES, A FARMER FROM TAMAROA, ILLINOIS WHERE I RAISE SOYBEANS, CORN AND HOGS. I APPEAR HERE TODAY AS PRESIDENT OF THE BOARD OF DIRECTORS OF THE LAND OF LINCOLN SOYBEAN ASSOCIATION. THE LAND OF LINCOLN SOYBEAN ASSOCIATION IS A NON-PROFIT VOLUNTEER SOYBEAN PRODUCER CONTROLLED COMMODITY ASSOCIATION ORGANIZED TO ASSURE THE OPPORTUNITY FOR PROFITABLE SOYBEAN PRODUCTION.

WE APPRECIATE THIS OPPORTUNITY TO PRESENT OUR VIEWS ON SPAIN'S DOMESTIC CONSUMPTION QUOTA ON SOYBEAN OIL AND THAT QUOTA'S IMPACT ON THE EXPORTS OF SOYBEAN PRODUCTS FROM ILLINOIS.

BEFORE I PRESENT SPECIFIC OBJECTIONS TO SPAIN'S DOMESTIC OIL TAX AND THE SITUATION WHICH CURRENTLY EXISTS, I WOULD LIKE TO QUICKLY REVIEW THE IMPORTANCE THAT THIS ISSUE HAS TO ILLINOIS SOYBEAN FARMERS AND THEIR RELATED AGRI-BUSINESS INDUSTRIES. ILLINOIS IS THE LARGEST PRODUCER OF SOYBEANS AND ALSO THE LARGEST EXPORTER OF SOYBEANS AND SOYBEAN PRODUCTS. IN 79/80, THE LAST YEAR WHICH ACCURATE FIGURES WERE AVAILABLE, ILLINOIS EXPORTED $1.4 BILLION WORTH OF SOYBEANS AND SOYBEAN PRODUCTS TO MORE THAN 100 COUNTRIES AROUND THE WORLD. SPAIN WAS THE FOURTH LARGEST SINGLE COUNTRY MARKET FOR THESE EXPORTS. THIS ISSUE OF RESTRICTION OF MARKET ACCESS BY SPAIN AND THE RELATED SIDE ISSUES OF SPAIN'S SUBSIDIZED EXPORTS TO THIRD COUNTRY MARKETS IS THEREFORE VITALLY IMPORTANT TO ILLINOIS SOYBEAN FARMERS, THE AGRI-BUSINESS COMMUNITY INVOLVED IN EXPORTING OF SOYBEANS AND SOYBEAN PRODUCTS AND THOSE ILLINOIS WORKERS EMPLOYED TO SUPPORT THIS IMPORTANT TRADE.

THE DISPUTE BETWEEN THE UNITED STATES AND SPAIN REGARDING THIS DISCRIMINATORY PRACTICE HAS EXISTED FOR A NUMBER OF YEARS AND HAS REDUCED SOYBEAN OIL CONSUMPTION IN SPAIN FROM 35% OF THE TOTAL SPANISH VEGETABLE OIL CONSUMPTION IN 1968 TO ONLY 14% IN 1980. THE RECENT BILATERAL NEGOTIATIONS HAVE NOT RESULTED IN RESOLUTION OF THIS PROBLEM.

WHILE TIME PREVENTS US FROM DISCUSSING ALL OF THE IMPORTANT ASPECTS OF THESE ISSUES, WE WOULD LIKE TO SAY THAT WE CONCUR WITH THE TESTIMONY WHICH HAS BEEN PRESENTED BY THE AMERICAN SOYBEAN ASSOCIATION AND THE NATIONAL SOYBEAN PROCESSORS ASSOCIATION. WE ALSO BELIEVE THAT IT IS IMPORTANT TO POINT OUT, HOWEVER, THAT EXPORT RESTRICTIONS SUCH AS

THE ONE IN SPAIN'S SITUATION, OR OTHER COUNTRIES, WHICH IS BASED ON DOMESTIC POLITICAL CONSIDERATION, CAN BE VERY COSTLY. TOO OFTEN WE HAVE ALLOWED THESE ISSUES TO OCCUR WITHOUT PROPER ACTION. WE WOULD URGE THAT WE WOULD USE ALL MEANS AVAILABLE AT OUR DISPOSAL TO MAKE IT CLEAR TO SPAIN AND OTHER COUNTRIES THAT THE UNITED STATES WILL NOT TOLERATE QUOTAS OR OTHER FORMS OF DISCRIMINATORY PRACTICE WHICH PREVENTS OUR ACCESS TO MARKETS. WE ARE NOT ASKING FOR SPECIAL CONCESSIONS OR A REDUCTION IN COMPETITION. WE FEEL THAT ILLINOIS SOYBEAN FARMERS CAN COMPETE IF PROVIDED THE FRAMEWORK TO DO SO ON A FAIR AND EQUITABLE BASIS.

ILLINOIS SOYBEAN FARMERS, AS WELL AS THE ENTIRE NATION HAVE AN ENORMOUS STAKE IN THE EXPORTS OF SOYBEANS AND SOYBEAN PRODUCTS.

ILLINOIS FARMERS CAN REAP THE HARVEST OF EXPANDED MARKET OPPORTUNITIES. ILLINOIS CONSUMERS CAN REAP THE HARVEST OF BETTER AND RELATIVELY LESS EXPENSIVE FOOD. OUR GOVERNMENT CAN REAP THE HARVEST OF INCREASED TAX INCOME FROM FARMERS AND RELATED INDUSTRY. OUR NATION CAN REAP THE HARVEST FROM INCREASED INTERNATIONAL SALES.

WE URGE THAT THESE TRADE ISSUES RECEIVE THE ATTENTION OF THE HIGHEST LEVELS OF U.S. GOVERNMENT SO THEY MAY BE QUICKLY RESOLVED TO ALLOW ILLINOIS PRODUCERS ACCESS TO WORLD MARKETS. THANK YOU.

JERRY GATES, PRESIDENT
LAND OF LINCOLN SOYBEAN ASSOCIATION
1701 TOWANDA AVENUE
P.O. BOX 2901
BLOOMINGTON, ILLINOIS 61701

Senator PERCY. In our last panel, we have Dick Vogen and Harold Steel and Harold Dodd. I'm going to put that question to them about the average farmer.

I would like to recognize Len Gardner in the audience. For 15 years he has brought farm groups down to Washington. And let me just say that they are among the most sophisticated groups that I have ever met. They are well informed; they watch world issues; they know grain production in China, and they know it in the Soviet Union. The second day of the Soviet grain embargo, they accurately forcasted exactly what would happen in the long run on this. We would be looked on as self-defeating if other countries would not adhere to that embargo. You just can't sustain an embargo over a long period of time. That's why I want tc prohibit singling out agriculture once and for all, and Alan Dixon and I are working on this.

I want to thank this panel, as they leave. I wonder if Deputy Under Secretary Hammer and Mr. Nelson could come forward.

We are right on schedule, by the way, and that's a miracle, because we are never or schedule in Washington, but we always are in Illinois. We are very fortunate to have with us representing the Federal Government, Donald M. Nelson, Assistant U.S. Trade Representative, and Thomas Hammer, Deputy Under Secretary for International Affairs and Commodity Programs at the U.S. Department of Agriculture. Mr. Nelson has been with the Government for 15 years on a number of international trade and agricultural policies. Formerly national affairs director of the American Farm Bureau, Mr. Hammer currently oversees the Agricultural Stabilization and Conservation Service, the Federal Crop Insurance Corporation, the Foreign Agricultural Service, and the Office of International Cooperation and Development. We are extremely pleased to have both of you here today, and we are delighted you could be in Urbana.

Mr. Nelson, if you would be good enough to begin.

TESTIMONY OF DONALD M. NELSON, ASSISTANT U.S. TRADE REPRESENTATIVE, OFFICE OF THE U.S. TRADE REPRESENTATIVE, WASHINGTON, D.C.; AND THOMAS A. HAMMER, DEPUTY UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Mr. Nelson. Thank you, Mr. Chairman. Good morning. It's good to be with you today to discuss several issues of mutual interest. I have prepared and submitted a statement that goes into specifics with respect to several of the issues that are important to us today and points of contention in our trading relations with the European Community. For the moment, though, I'd just like to make a few notes in passing. My office and this administration fully recognize the importance of agricultural trade as a generator of foreign exchange and employment here at home. We are dedicated to boosting those exports by paving the way for the private sector to use its efficiencies and productivity. We do consider the Spanish soybean oil case important and intend that the case not be adopted by the GATT Council. We do intend to maintain access to European markets for soybeans and soybean products, and we do intend to challenge the European Community's aggressive use of export subsidies. In general, we are working to maintain all markets that we already have, and we are seeking greater access to those that, for one reason or another, have been restricted. In some cases, we are able to accomplish this by bilateral consultations. And frequently these are very productive in resolving these issues. In other cases, though, we have had to resort to the General Agreement on Tariffs and Trade [GATT]. Whatever the issue and whatever the route, we are actively seeking to remove those. In accomplishing this goal, it is essential that we continue to work closely with the Congress and with the private sector. This is a partnership and is the key to future success. Your support today and your commitment this morning to future support is most welcome. With those words, I close now and will be willing to answer any questions or respond to any comments you might have.

Senator Percy. Thank you very much indeed. Don't be too concerned about the time constraints. You have traveled the longest distance, so if you want to take a little more time, you certainly can. We have a full half hour provided for questions and answers, but maybe during the question period we can expand on these critical issues.

Mr. NELSON. Very good.

Senator PERCY. Mr. Hammer.

Mr. HAMMER. Mr. Chairman, thank you. As you noted, I am relatively new to the Government, having just come in with the new administration. Thare are many in this room and on the panel that I have worked with over the years before, from Bill Mullins to Sheldon Hauck to Harold Steele. In fact, even Bill Koluss I see here, who was president of the American Farm Bureau when I first went to work for them. So, it's kind of a pleasure to be away from Washington and back out into a setting like this.

Senator PERCY. I call it recharging my batteries. I have a better perspective of Washington if I come back to the Land of Lincoln every weekend that I can. I know how distracting it must be from a witness' point of view and from the chairman's, when those annoying bells go off, and Senators are running back to the floor for votes.

Mr. HAMMER. In this country, I think that people that tend to ridicule the Government and the administrators aren't put in jail or asylums. Art Buchwald said the solution was making them part of the establishment, and that seems to be what's happened to me at this juncture. I would like to say, however, that I am pleased to have the opportunity to discuss that U.S. concern over the tendency toward protectionism in agricultural trade that is becoming increasingly apparent in the European Community. I contend with you, Mr. Chairman, that we do have a problem. I also commend you for holding the hearings, not only in this location where men and women that are involved in this matter personally can take part, but also in the fact that it's being held by you, in your capacity, and your capacity is that of concern with foreign relations. I have no question that the European Community has taken note that it's just not another Agriculture Committee hearing. As you know, when we have agricultural problems sometimes, they are perceived to be parochial. However, when we are talking about agricultural problems in the magnitude that we have here today, they eventually can spill over into the international problems, so I commend you again for having——

Senator PERCY. I think you are so right. I have always believed, all my life, in international trade. Trade forms a real solid basis for relationships, even with adversaries. Many times their interdependence causes the political problems to melt when they realize that breaching or breaking a trade agreement would cause them tremendous hardship at home. And they really want to open those trade markets. Now we are going to sell the Soviets 18 million tons of grain. That's almost half of the 40 million tons they are going to be short this year. They are going to have a shortfall of 30 percent. They are going to be lower in production by 10 million tons than they were last year, and China, the same thing. Both Communist countries are going to be very dependent upon our production, so trade is a terribly important thing, and the roles that you play and the jobs that you hold down, they are the key to stronger relationships in the political field. Thank you. You are right on that.

Mr. HAMMER. Mr. Chairman, along those lines, as you know, it's sometimes difficult to do the type of either professional or recreational reading that you might want to do. Last night, when I was on the plane flying here, I happened to get through some of my reading and read—I will just quote a paragraph or two from an excellent report by the chairman of one of our major corporations. It's called "Make Trade, Not War." He goes on to say:

> In this country, we tend to act and think as if the U.S. economy exists in a vacuum, the U.S. economy as a self-contained system, when in fact we are constantly being tugged, pulled, and affected by international forces at times beyond our immediate control or awareness. Like many businessmen, I believe discipline and free market is sometimes very like the law of nature. If we ignore or violated its tenant beyond the point, we are certain to pay for it sooner or later. supply and demand and market discipline are not only powerful and valid in theory, but they are essential in controlling principle in a democratic society, a sort of flywheel without which we would fall apart, over indulgence in ourselves to the point of decline, fall, and extinction. Increasingly, the expanding world economy, as it accounts for a growing share of all the economic activity, compels us, acts in our own self interest, to conform to market disciplines. Societies that deny and defy the disciplines of the market, and most attempt to subordinate them in short term goals, are those that tend to lose out in the market. Those that embrace the market and put the horse after private enterprise, of social welfare, are those best able to provided the populations.

That was fairly meaningful to me as I thought about the purpose of the hearing that you conducted. With that, I will go on to make a few remarks. My remarks are fairly short.

Now, not only the U.S. agricultural market in the Community, which is worth about $9 billion a year, but U.S. markets in other countries of the world would be threatened if the protectionist proposals that have surfaced become realities. With the United States a major producer and the leading exporter of agricultural products, this administration places tremendous importance on achieving a more open and stable trading system. We believe that the European Community, as another major producer and trader, shares a responsibility to work toward such a system.

So, we are seriously concerned when Community sentiment appears to be moving toward more restrictive trading policies rather than toward a system of trade based on the principles of efficiency and equity.

The Community's recent steps toward increased protection stem from a domestic policy which encourages overproduction through the use of high support prices as well as processing, production and export subsidies. This policy has enabled the Eurpean Community to achieve self-sufficiency for all major agricultural products, except for oilseeds. Moreover, surpluses have developed in several sectors and have lead to increasingly higher budget costs. Community expenditures on agriculture, including support and subsidy payments, totaled $16.5 billion last year, approximately two-thirds of the total European Community budget. And I must say, we are now in the process of debating over our farm bill. And a cost of our farm bill in an average market year might be about $3 billion which, of course, is a lot of money, a long way from $10 to $20 billion you are putting into their agricultural system.

In the recent past, Community leaders have considered a policy of taxing farmers for surplus production, in order to alleviate these financial difficulties. Moreover, this policy has been implemented sparingly, and with little effect, so the European Community policymakers have shifted the cost of domestic programs to its trading partners in the form of these export subsidies, import levies, and other restrictions.

We have two general concerns regarding European Community's approach to agricultural trade. First, the European Community has adopted an increasingly aggressive export policy, using subsidies to dispose of surpluses on world markets, particularly wheat and wheat flour. At the same time, export subsidies are used to dispose of excess production of poultry meat, beef, sugar, and dairy products. Now, the Community appears to be moving toward the adoption of a policy designed to dispose permanently of surplus production in international trade. This would involve the inclusion of long-term bilateral agreements, special credit arrangements, and the expanded use of export subsidies. Basically, this means the European Community wouldn't be in the export market on an out basis or by accident because of excess surplus, but by design over a long period of time, destined to capture markets from other agricultural exporters. Such a plan would impact directly on U.S. exports, particularly grains and poultry, and would put genuine strains on the trade relations between the United States and the European Community. An European Community policy which enables the Community to gain an equitable share of the world market at the expense of other suppliers is one we cannot and will not accept.

Our second concern is what appears to be an increasing threat to access to the European Community market for American agricultural products. We have just heard that the European Community Commission recently considered the draft proposal to impose a tax on vegetable oil and fats. The U.S. Government made a strong demarche to the Commission concerning the proposal and, as we heard today, our mission in Brussels informed us that the Commission has dropped the plan to impose this tax. While reference to the tax is still included for presentational purposes in the Commission's proposals, it appears that the Commission has decided to look at other alternatives and to defer further consideration until the Article XXIV:6 discussions following the Spanish accession in the Community arise. We are encouraged by the responsible attitude of Commission officials regarding this matter, but we are also cautious. The administration will continue to take strong positions whenever proposals which are detrimental to vital U.S. trade interests are put forward by other countries.

A related concern discussed this morning involves a GATT Panel report which rules that Spain's domestic consumption quotas on soybean oil are not in violation of the GATT. The United States remains strongly committed to opposing the Spanish quota system. And making sure that the Panel findings on these quotas are not adopted by the GATT Council is one of our foremost trade policy goals at USDA, and I think in the Government and Congress, as we are seeing here today. Not only would the adoption set a dangerous precedent for the future of international trade in general, the European Community could use the panel report to justify the implementation of similar restrictions on the use of products delivered from imported commodities.

At this point, we believe the Council will take up the Panel report in early November, possibly the 3d or 4th. We have circulated briefs defending our position among the GATT members. In addition, we are seeking support for our efforts from the governments of key GATT member nations. I, on behalf of the USDA, will be present and attending those GATT Panel hearings in the early part of November.

The United States is also seriously disturbed by Community pressure to limit imports of feed-grain substitutes, particularly corn gluten feed. Certain voices in the European Community advocate unbinding the zero duty which had been previously bound by negotiations in the GATT. They cite as justification the growth in imports of corn gluten and fears that rising output of ethanol and corn sweetener production in the United States will sharply increase import.

We have repeatedly stressed to Community leaders that these fears are unfounded and that the reason for the increase in U.S. exports of corn gluten feed to the European Community is simply market price. Corn gluten prices in the United States in recent years have run about 25 percent higher than those for domestic corn, while the price of corn gluten in the European Community has been about 20 percent below European corn prices due to high support price levels and the levy which keeps corn import costs high.

As for ethanol, this administration has given a lower priority to gasohol production than the previous administration. We have also made it clear that, with an export trade in feed-grain substitues valued at $600 to $700 million last year at stake, the United States would be forced to move decisively to defend its trade interests if the European Community were to act to restrict our market opportunities.

In conclusion, let me say that these recent trade policy developments within the European Community are not encouraging. The United States has taken every opportunity to emphasize to Community leaders the significance we place on maintaining a liberal world trading system, based on fair and true competition. We intend to continue to do so, and believe strongly that the United States and European Communities have the opportunity and responsibility to work together in a joint leadership role for the benefit of world agricultural trade. Through cooperation, we can work with other nations in creating an export climate that will provide greater opportunity for efficient producers, such as the farmers of Illinois and our other great agricultural States that we serve in this country. We will continue to work for this objective, through cooperation with the Community and our other trading partners. but, if this fails, we are prepared to defend our trading rights wherever they are threatened.

This concludes my statement, Mr. Chairman. I will be pleased to answer any questions.

Senator PERCY. Thank you very much. Mr. Nelson, I would very much appreciate your expressing my gratitude to Ambassador Brock for all that he has done to make an all out effort now to turn this situation around. I know on his recent trip to Australia, New Zealand, and Japan, it was a major point that he made with every single one of those govenments. The point was not lost on them, and I think we picked up some votes for the GATT meetings. He knows how to pick up the votes.

Mr. NELSON. I think your talking with those gentlemen as well was most helpful, with those foreign government representatives in Washington.

Senator PERCY. I thank you. Do you believe the European Community's export subsidy policy and Common Agricultural Policy is a real threat to our American farmers, and how can our farmers compete in the world market against these kinds of subsidized exports?

Mr. NELSON. I do indeed feel this is a threat to our exports. As Tom Hammer just indicated, the Community now is in a position of being a residual supplier for some products, dumping surpluses into world markets at prices below those at which traditional suppliers can compete. This is because of their current export subsidy policy. if they adopt the common export policy, which is only a proposal at this point, they would place themselves in the role of being first supplier in a number of markets which have been markets for efficient suppliers. A complete change in the policy would represent a real threat to the kind of efficient production that we have in this country, and it would certainly, in our view, be a violation of their commitments under the General Agreement on Tariffs and Trade. We are very much concerned about it. We have expressed that concern, and we think it has had some effect.

Senator PERCY. Ever since I was asked by President Eisenhower to head the legislative part of the Committee for National Trade Policy, to establish a whole new trade policy, we have looked upon quotas as the absolute worst thing that can happen to any country's consumers. It totally distorts the market. That's why we really fought against them, even on Japanese automobile imports. But this practice of internal consumption quotas has gone on for a long time, many years. Preceding this administration, why did the U.S. Trade Representative bring its complaint to GATT, after allowing this practice to continue for so many years?

Mr. NELSON. The practice has gone on for quite some time, you are correct, and the quotas have been progressively reduced to the point now, I believe it's 90,000 tons a year to be marketed domestically. We had tried, on many, many occasions, to convince the Spanish Government to alter the system. We had consultations, bilateral consultations at high levels, of one type or another, in an attempt to convince them of the value of having the soybean oil in the market, talked to them about some of the difficulties that you mentioned on the size of the container, on pricing practices, and so on. It became evident that there was sufficient domestic political pressure on the Spanish Government that not only they were not going to liberalize the industry, but in fact were going to tighten it even more. At that point it became evident that we needed to move to protect the market we had and to mitigate the effects of Spanish soy oil exports that were, moving into competition with us in third markets.

Senator PERCY. Could you tell us who it was that advised the U.S. Trade Representative, as you say, incorrectly, that the U.S. Government could withdraw its complaint in the GATT after we found out that our complaint was going to be rejected?

Mr. NELSON. Yes, sir. Our representative in Geneva had talked with an official of the GATT Secretariat—that is the managing body of the GATT—and we were advised that at no previous time had a plaintiff withdrawn a case that was so far along; that is, after the preliminary determination had been rendered. We were told, in fact, that as the plaintiff, we had the right to do so. Unfortunately, we did not deal with the fact that these processes do not work as does the judicial process in the United States. The chairman of that panel has a great deal of independence in determining what it is he chooses to do. He chose to issue a report, not the full report, but one which would have been much shorter, one which we think would have been quite prejudicial to our position.

Senator PERCY. Was any attempt made to negotiate with the chairman when the dispute settlement panel said that the shortened report would note the United States was withdrawing the complaint, giving the impression that the Spanish had won?

Mr. NELSON. Our representative in Geneva did talk at length with the members of the panel, but the chairman felt, because the complaint had been made, that the record should show that the panel did examine the case, and that there should be a record of the examination of the case.

Senator PERCY. I might note that Senator John Glenn and I appeared on the "Good Morning America" show at 6:15 this morning. We very much differed on how much consultation exists between the President and the Committee on Foreign Relations. With respect to opening up China, for instance, a dramatic move, we were called an hour and a half before President Carter went on network television to announce that the United States was starting formal negotiations for diplomatic changes. That was not consultation. That was notification. In this case, now, the question is how much consultation is there with the industry, and let's say, the Department of Agriculture. Did the Foreign Agricultural Service of the USDA support the industry view, and how much consultation was there, in your judgment, with the industry?

Mr. NELSON. We sought the industry's view initially, and we have consulted with the industry as we proceeded through the case. We have also worked very closely with Foreign Agricultural Service through all of this. As Mr. Hauck indicated, we do not have technical expertise in our office. It's a small group of people, and we relied heavily on the highly competent staff of USDA in this particular case. We have consulted with the USDA and American Soybean Association, and we are aware that NSPA, as I noted in my written testimony, and we have a difference of opinion. Their views have not been ignored. They were carefully considered. Once a decision was made to go ahead and to fight this case out in GATT, they have been extremely supportive. We talked with them on several occasions, and the kind of support they have offered and given has been most useful.

Senator PERCY. Finally, how confident do you feel that the U.S. position will be upheld on November 3, 1981?

Mr. NELSON. I am extremely confident that it will be. We are in a position, along with several other countries who have been frankly shocked by the very novel, which is a polite way of putting it, interpretation that the panel gave of our case. We believe that we are in a good position to make certain that that does not become GATT precedent.

Senator PERCY. I have yet to be turned down by a country who fully understands the issue now and say they would vote against it. The vast implications of this case go way beyond our immediate interest. It would be disastrous, I think.

Mr. NELSON. It certainly would be.

Senator PERCY. Thank you, very much indeed, and it's very reassuring.

Mr. NELSON. Thank you.

Senator PERCY. I'd like to, Mr. Hammer, congratulate the fine efforts by Secretary Block, certainly by you and others that may have persuaded the European Community Commission to defer the oilseeds tax proposal. What do you think will happen after Spain joins the European Community this decade? Will the idea be resurrected because of the olive oil surplus?

Mr. HAMMER. Well, first of all, I appreciate your notes of congratulations to Secretary Block, and I am sure he would accept them, but he would also say----

Senator PERCY. And to you also.

Mr. HAMMER. Well, complimenting my boss is enough, but I would think he would be—he did not prevail or could not have prevailed in this if it had solely been viewed as Secretary of Agriculture's position. As we have said here earlier here today, and I think stressed, we have been lockstep on matters of this with, I think, our Congress. Today shows, with Ambassador Brock, Secretary Haig, the White House, they have probed and pushed and tried to find a crack in the dike of the administration and to basically find our whether or not it's solely a USDA position, and they have determined, to my satisfaction, that it is not. Having determined that, I think it did weigh heavily on the decision that the European Community made on the oil tax situation this last week. I am not particularly satisified, however, Mr. Chairman, that the problem is going to go away. Two of the basic problems that have caused the European Community to view this tax with more vigor today than they have in the last several years that they have been talking about it are, number one, the increasing oil surplus that is—they are going to have to deal with. It's olive oil that they are facing from Greece. They will continue to face more and more when Spain comes in, and Portugal as well.

The second issue is one of budget, and we know the problems budget creates and finances are a very difficult problem for financing. As I said, $16 billion, $17 billion, or $18 billion that they use for agricultural support, and a motion away to increase tax, finances, is to tax these vegetable oils, which will primarily be products derived from the United States. So, they can get us coming and going, if you will. They will limit the amount of production. They can take care of their oil products. They can use other commodities. If they were to use feed-grain substitutes for just that, as we have heard earlier, they could use more of their own domestic products. The other issue is, what they do when the money is used to subsidize their products back out, then we meet them again. I don't think the problem has gone away. Constant surveillance is going to have to be the name of the game.

Senator **Percy**. Even though common third country markets are developing at a compound rate of 20 percent a year. No other market in the world is growing that fast. Those countries desperately need our products. A billion people are going to go to bed hungry today. They need our product. Just to review, because you did summarize your statement, just to review the dramatic figures that you gave here, we have got a $9 billion agricultural trade in the United States to the Common Market. But we have the Common Market moving toward restrictive trading policies, caused by overproduction generated by high support price subsidies. Those price support subsidies in the Common Market today total $16.5 billion, as you have said, in 1980. That's two-thirds of the whole European Community budget, and this is really distorting in the market place, as we understand it and know it, and fought to keep it free. Now these distortions result in tremendous taxes. The crushing burden of taxes is causing the European countries to say they can't afford to defend themselves. They can't afford to increase the defense budget 3 percent, when we are spending our $26 billion, because they are throwing money away this way, subsidizing over production, causing the European consumer in the end to pay for it. And we have just got to stop that practice. It's a pervasive disease. It is a cancer in the trading markets.

Let's just go back to GATT again. Did the USDA agree with the decision of the USTR not to withdraw from the case after it appeared we would lose? In general, how closely has the U.S. Trade Representatives consulted with the USDA?

Mr. **Hammer**. Well, I think that the coordination has been relatively good. Mr. Chairman, I have read through the chronology of events. I must say that it wasn't until early in this year that I was in, as part of the case. I think the record states that there have been some differences of opinion. I will say that I think the important point is that, at this point in time, the history is important, yes, but right now, we have a date. We have got a panel, a date that we know of. I think, at this point in time, I won't speak for the industry, but I feel, irrespective of where we have come from, we have now collapsed around the basket, if you will. There is no differences of opinion between the administration and the industry. There may be of how we got to this point, but we are at a point now. We got several weeks to apply all of our resources, and I believe that, if we do it, it's a political, but, as Don Nelson indicated, there have been some rather ingenious arguments put forward, some of which are not in the spirit or the letter of other cases which we viewed before in GATT, and is basically going to turn down the political decision. And I hope that we are conveying the message here today, that now that we are all in the same boat together, we plan to put whatever resources it takes together in the next few weeks to win this case. I will be there. I will be working on it. Ambassador Brock will be working on it personally, and I just hope that now that we are starting off together in step, that we will prevail in this case, because it's too important not to.

Senator **Percy**. If the European Community breaks its commitment negotiated during the Dillon and Kennedy rounds of multilateral trade negotiations to impose a levy on corn gluten feed, what do you think we should do, Mr. Hammer? Do you think the United

States would be forced to move decisively to defend our trade interests? Now, let's just put it in clear, unmistakable terms. What does that mean? Because we know the Europeans listen to the Voice of America and they are going to listen to what you say, and what you have to say is, I think, a forecast of events that the U.S. Congress will back you on. We had a "Chicken War" once and we won it. We can win these wars if we want to wage them. But we don't want to if we don't have to. We want to work it out in a way, we think, between partners and friends, and we have worked out much tougher problems than this one. But what alternatives do we have?

Mr. HAMMER. Since the walls apparently have ears, I am uncomfortable talking about essentially our best customer, our best group of customers, if you take the European Community as a single unit. I have come from a business world and it's not the type of environment that I look to be dealing in with my No. 1 customer. I would rather be talking about ways to expand trade, than sit around in backrooms worrying about how we are going to constrict trade. As I said, this article I read at the beginning was make trade, not war. However, there is a couple of things that we need to know. First, the European Coummunity is our most important market as a group. But, for the first time in several years, Asia has taken over Europe. Asia has taken over Europe as our No. 1 market, and that's where the growth is. We need the European market. The soybean people need it desperately, also. But the other problem we have is not only we are facing losing our markets there, we are facing losing our markets in the part of the world where you noted that our growth is taking place, because of European Community activities. We simply cannot stand by and allow this to happen. We have reports in the Department of Agriculture that show that net farm income is at historic lows. We derive our agricultural income by exports. We cannot, as a Government, stand by and watch these erode.

Now, we do have GATT procedures. I did indicate in my statement that we want to talk with them, work with them, cooperate, but I think there should be no misinterpretation that, if these normal channels cannot lead to solutions, we are going to be in very, very, serious environment. I hate to even mention the word, because it's not the way—I do not wish to sit around and draw up a list of commodities that we could retaliate against, if we got in a trade war. My job is to identify markets where we have opportunities. But, as a businsesman also, I know you keep markets that you got, then you worry about new markets. And so, basically, we are going to have to take care of what we have now before we start to worry about a market that may be a bird in the future. And a bird in the hand is always better than two in the bushes, and right now we are talking about that bird in the hand.

At this time, it is just a matter that leaves me very uncomfortable, but I don't think there should be any doubts in European minds what the lack of involvement will have in this matter.

Senator PERCY. Mr. Hammer, Mr. Nelson, I'd like to say this in conclusion. This is now the end of my third decade in trade relations with our European allies. We have built factories all over the world, done business in 100 countries all over the world, and continue to do so. And I have always been able to work it out in the spirit of cooperation. But, they have to recognize there is a strong protectionist movement. There is a sense of anger. There is a sense of anger that we are expected to please the whole world. After all, 90 percent of the oil on which Japan is dependent comes from the Middle East. A much smaller percent for us. We are expected to do all of the policing in the Persian Gulf. The AWACS plane has just been flown to Egypt. All of this is on our back to protect the world and keep the oil lanes open. The Japanese have resisted increasing their defense budget eight-tenths of 1 percent. That's a miniscule amount compared to what we spend, and Europe, the same thing.

We still have hundreds of thousands of troops, 36 years after the war, based and stationed away from their homes and families in Europe to protect Europe. They can't expect us to do this all alone. If they don't in every way make it possible for this economy to grow, I am very worried about agriculture today and its future. We can grow fence post to fence post, and we should. The world needs that, and we need that trade to pay for this defense. We can't do it with these restrictive practices. They can't have it both ways, and we simply must work this out with them. And I say, between Brock and Block, we will put a hammer lock on this situation, and a half nelson, if we have to, but here is where the buck stops.

The men who really are on the firing line, in the front trenches, are fighting to protect the interest of the free world. That's what they are doing, and they have got to do it diplomatically and persuasively, but they are going to have the power of Congress behind them. We are going to back you up every single step of the way.

And let's not forget the air traffic controllers. President Reagan decided, when they went on strike, they broke the law. They are out of jobs. And he didn't back down on it, and we are still flying the airplanes. I got in on time, despite the controllers defying their Government and walking out on their Government. We can't deny each other. We have to work together as partners, but we mean business. We don't mean to be ridden over by any country. We are going to take our case to Geneva and we are going to win this one. Thank you.

[The prepared statements of Messrs. Nelson and Hammer follow:]

PREPARED STATEMENT OF DONALD M. NELSON

Mr. Chairman:

My name is Donald Nelson; I am Assistant U.S. Trade Representative for Agricultural Affairs and Commodity Policy.

It is a pleasure to be with you today to discuss several issues of interest to the agricultural community in Illinois. I hope in the course of this morning to briefly tell you the current status of two or three problem areas and to give you, as well, our idea of where we think the United States should be going in its trade policy with respect to agriculture.

Since you are already intimately familiar with the importance to our economy of our agricultural exports, I need not take time here to list the advantages that accrue to us as a result of the booming farm exports over the past decades. I will note, though, that our efficiency as producers and exporters has given us a great stake in assuring a free and open world market for these products. Unfortunately, that system has suffered distortions as countries restrict imports by one or another means, and as they subsidize exports into our own or into third markets. This Administration is committed to the reduction of those distortions so that the free market system will be allowed to work. I think this will become evident as we discuss several issues that I know are of interest to many of those assembled here today.

The first is the determination by a dispute settlement panel of the General Agreements on Tariffs and Trade (GATT) that Spain's system of marketing quotas on soybean oil was not inconsistent with Spain's GATT obligations.

By way of background, the Spanish Government places a limit on the amount of soybean oil that can be marketed domestically, forcing the remainder into the export market. The purpose of the measure is to protect the domestic producers of olives and olive oil. We believe that the Spanish measure is maintained in violation of Spain's GATT obligations; after several attempts to bilaterally resolve this issue, the U.S. Government sought resolution through the dispute settlement mechanism provided for in Article XXIII of the GATT. The GATT panel met twice with us and with the Spanish, and late last year delivered the opinion that our allegations were not well founded.

At that point, we examined the options available to us as we understood them to be. We were advised -- incorrectly as it turned out -- that as the "plantiff" we could withdraw our original complaint and the issue would be laid to rest. Essentially there would be no GATT precedent, for as so long as there was no complaint, there could be no panel report, and consequently no precedent. Also, at the panel's urging, we made another attempt to resolve the issue bilaterally. The Spanish, feeling that their system had been vindicated, had no interest in settling and wanted the panel report published. We withdrew our complaint.

At about this time, the chairman of the panel indicated that, despite the U.S. withdrawal, the panel intended to issue a report that said, in essence, that the U.S. had brought a complaint, that the complaint had been examined, that the panel had given an opinion, and that after examining that opinion the United States had withdrawn that complaint. Thus, the shortened panel report would give the impression that the panel had said that the Spanish measure was legal. Since that was not, in fact, the result, and because we were very concerned that the panel's reasoning -- which we consider faulty -- would be used in other cases, we had to again examine the options.

We had withdrawn our complaint based on the understanding that there would be no report, only to find that there would not only be a report, but that its wording was likely to be far more damaging than the full one we had sought to avoid. We had to consider the ramifications of allowing the shorter report to be adopted versus the outcome of a challenge on the floor of the GATT Council of the fuller and more detailed original one. In the process of making our decision, we consulted with our private sector here and with a number of trading partners that we felt would be affected by the adoption of the type of reasoning used by the panel.

In fairness, the consultation with our private sector surfaced a strong difference of opinion as to approaches. They opposed our fighting the original report -- they opposed the withdrawal of the withdrawal we had earlier requested. I'm not certain of all the reasons behind their position, but I believe it fair to say that they doubted our ability to actually block adoption of the panel report. Since we had just shifted signals on the withdrawal of the complaint, their doubting of our judgement is understandable. We believe, though, that the rationale used by the panel is so far off the mark and so dangerous if used as precedents in other cases that we must air the full report and actively oppose its adoption. Some of the private sector individuals with whom we spoke are still unconvinced that the route we have chosen is the best one, but I applaud the support they have given us since the decision was made to pursue the open opposition option.

Since we made the decision, we have sought every opportunity to raise this matter with high-level officials of other governments, not just within the trade policy ministries, but in other areas as well. In his trip to Australia, New Zealand, the ASEAN countries, and Japan, Ambassador Brock raised our concern with Prime Ministers, and Foreign, Finance, Agriculture, and Trade Ministers. He has solicited support from foreign visitors to Washington and has sent a letter to policy-level officials of more than 20 influential countries urging them to support the U.S. position that the report constitutes such poor precedent that it should not be adopted. The response to this and to representations made by senior officials of the Departments of Agriculture and State -- and to contacts as well, by members of the Senate and House of Representatives -- has been gratifying. I frankly feel quite confident that the report will not be adopted by the GATT Council.

I have already provided your staff with all of the documentation on this case and have had in-depth discussions about the legalities involved, so we need not go too deeply into them here, but it might be useful to highlight what we consider to be the main issues.

First I should say that we consider that the report of the panel interprets certain provisions of the GATT in a manner inconsistent with its language, intent, and history. Our concerns are not confined to the question of the particular Spanish measures at issue in this case. Rather, our fundamental concern is that the panel's interpretation of GATT, if adopted by the contracting parties, would create precedents permitting the erection of significant new barriers to world trade. Specifically are concerns are:

A. The panel found that internal regulations that protect domestic production could not be considered contrary to Article III:1 unless it were demonstrated that the regulations had adverse effects on imports of directly competitive products. The United States believes that proof of damage is not required to demonstrate that a measure is inconsistent with Article III:1. In accordance with GATT practice, the question of trade damage is not relevant in determining whether a measure is contrary to GATT but is relevant only in determining the compensation owed.

B. The panel findings imply that a basic component of an imported product that has gone through the first stage of processing is a domestic product without regard to the fact that such processing is indispensable to the commercial use of the imported product and involves the addition of no other ingredients. It therefore found that the proscription of internal quantitative regulations of Article III:5 does not apply to this case. The United States believes that such is not the intent of Article III:5 or the interpretive note Ad Article III:5.

C. The panel found that the term "like product" as used in Article III:4 means "more or less the same product." The United States believes such a definition is too narrow. Moreover, in past cases under the dispute settlement process, the contracting parties have followed a pragmatic approach, examining the specific factors of each particular case, and have avoided a general definition of "like products."

In short, the exports of many countries could be adversely affected if importing countries were to adopt measures that were consistent with the reasoning of the panel. Consequently, a number are deeply concerned that this type of precedent not be adopted. As noted earlier, this opposition, combined with our own, makes me feel that the GATT will not adopt the panel's report and that it will not be used as a precedent in future cases.

Another issue in which we all have a real and abiding interest is the recurring threat that the European Community might take some action to reduce the importation of soybeans from the United States. As you know, the EC commitment to allow the duty-free importation of soybeans is the most valuable tariff concession we have ever received. Our annual trade in soybeans and related products with the Community is approaching $4 billion. We need that trade and we intend to do our best to maintain unrestricted access to that market.

Periodically, as the EC examines its budget or looks at ways to accommodate new member states, there surfaces a proposal to somehow limit soybean imports. Just as regularly, we and other suppliers register our concern. The EC Commission is aware of the importance the U.S. places on this concession, and they realize that the consequences of restricting access in any way would be costly. For that reason, I am reasonably confident that no overt action will be taken on soybeans, per se.

You are aware, of course, that last week, the EC Commission in effect killed a proposal that would have taxed vegetable and marine oils as well as the oil content of soybeans, and would have disadvantaged soybean oil with respect to olive oil. Some EC officials have maintained that such a proposal would have been consistent with the provisions of the GATT. We held the opposite view and expressed our opinion at the highest levels in the Commission and the Member States.

I don't wish to speculate as to all the factors that were considered in making the decision to abandon the oilseed tax proposal, but I believe that the Commission sees the possible surplus of vegetable oils as a domestic structural problem that must be corrected within the system. Spain's accession to the EC is still probably several years away, providing time for the affected domestic industries to make the changes necessary to compete in a larger market. We have repeatedly urged the Community to bear those adjustment burdens themselves and hope that this is an indication that they see the advantages to the agricultural sector and to their consumers of doing so.

We should recognize that there could be a problem with vegetable oils upon Spain's entry, and we should continue to follow closely the formulation of EC policies with respect to this important product sector. I assure you that we will be alert to any actions or proposals that would have a negative impact on our trade.

We frequently complain that the Community's Common Agricultural Policy (CAP) manifests itself in ways that disadvantage us in international trade. And those complaints are valid in a good number of cases. There is at least one product, though, that benefits from the system. I speak here of corn gluten and the whole non-grain feed ingredient group.

As you know, the EC has a price support system for grains that guarantees the producer a price that is significantly above world market levels. These prices make the EC-produced grains unattractive to European feed compounders. Because corn gluten feed and a number of similar products can be imported free of duty (or at low duty levels) because of past trade agreements, the compounders have begun to effect such imports in increasingly larger quantities. In combination with the depressive effect of high EC prices, the increase in the importation of non-grain feeds has reduced the demand for grain in the Community. This reduced demand is reflected in sluggish EC imports of grain and the increasing use of export subsidies to move EC grain into world markets in competition with unsubsidized exports from other countries, including our own. It has also generated cries for a limitation on the importation of products that are competitive with domestic grain.

The Community has already attempted to negotiate a voluntary restraint agreement on manioc with Thailand. The manioc has also been displacing EC feedgrains and wheat, and since Thailand is not a member of GATT, and since the EC is such a big market for Thailand, the Community had a certain amount of leverage. We see the arrangement with Thailand as only the first step in the EC's attempt to shift the burden of their domestic problems to others.

There is some concern here that if the Community can get some relief for its grains producers by its restrictions on manioc, it will next look to some action on corn gluten. I should note here that the EC can change legally the import treatment for such products. There is a provision in the GATT. It is Article XXVIII, "Modifications of Schedules". While that provision permits the unbinding of duties it also calls for a rebalancing of concessions. This conceivably could be either through the granting of other concessions of interest to the

United States, or through a withdrawal of concessions by the U.S. on items of interest to the EC. It is dangerous and not very wise to get into hypothetical discussions on what our reaction might be to some move by the EC on non-grain feed ingredients, but I do know that there would be a good deal of support for the "retaliation" option.

If that option were chosen it would be a general departure from our normal practice of accepting compensatory concessions -- we essentially prefer trade expanding rather than trade restricting measures. This departure from the norm would be prompted by our feeling that this was only the second of the possible steps that the Community had chosen to shift the adjustment burden to others. The first was manioc, the second would be non-grain feed ingredients, and the third most likely target would be soybeans. Some would view retaliation here as a means of showing that we mean business and that we will not bear the adjustment burden that the EC refuses to shoulder itself. Again, I don't know if any of this will come to pass, and I'm not rattling sabres, but this is an area of concern to all of us, and we are watching developments very closely.

The matter of the Community's export subsidies is one that is occupying a good deal of our attention. The CAP, with its production incentives, generates huge surpluses of some commodities. In general, these are priced well above world market levels, requiring hefty subsidies to move them. We currently have before us at USTR a number of petitions asking that we enter into dispute settlement procedures with the EC to seek elimination of their subsidies. At the end of this month we will be holding formal consultations on wheat flour under the newly negotiated Subsidies Code. This will be the first case brought under the code and should be indicative of the future course of dispute settlement in the GATT.

You are very likely aware of a proposal that has surfaced in recent months that would establish what is termed the CEP, or Common Export Policy. This proposal, if adopted -- and it is a long, long way from adoption -- would institutionalize export subsidies for a number of products. It involves, as nearly as we can determine, entering into long-term supply contracts with some countries on products that now enjoy the benefits of the export restitution system.

I have been told by one EC official that I should not be concerned because any long-term agreements under the CEP would not make reference to the price at which the commodities would be traded. I take little comfort in those assurances for I know that those products would have to move at something approximating world prices. In order to do so, it seems certain that export restitutions would have to be involved. So in my opinion, to enter into such undertakings is simply to guarantee the subsidies will continue. I fervently hope, that as the Community looks at ways to rationalize the CAP, it recognizes the danger of making such a continuing commitment to the expenditure for subsidies.

Again, these issues are mentioned, not to be combative with respect to the Community, but to show you that we are aware of problems that have arisen and that we are actively working to resolve them. I would be less than fair to these important trading partners if I failed to note that we have been able to resolve a number of issues bilaterally. It is inevitable, when two agricultural systems are so different, that we find ourselves in conflict, but I think it is worth mentioning that we have been able to work out our problems amicably in most cases. We should recall, by the way, that we have a very favorable balance-of-payments with the Community, and that we have barriers to the importation of some products that are of great interest to them.

We will continue to have conflicts, and we will continue to be able to resolve the great majority without fanfare or rhetoric. There will, however, be some instances where our differences are so great that we must go to the GATT for their resolution. I happen to believe that this is perfectly acceptable. It doesn't mean that we have ruptured relations; it simply means that we cannot agree and have asked others to settle the dispute. The GATT needs to be used; and we intend to use it.

Thank you for the opportunity to appear here today.

Statement of Thomas A. Hammer
Deputy Undersecretary, International Affairs and Commodity Programs
before the Committee on Governmental Affairs Subcommittee on Energy,
Nuclear Proliferation and Government Processes
Urbana, Illinois
October 16, 1981

I am pleased to have the opportunity to discuss U.S. concern over the tendency toward protectionism in agricultural trade that is becoming increasingly apparent in the European Community. I commend the chairman for scheduling hearings on this important matter in the farm community, where the men and women who produce our export products so abundantly can have a chance to participate.

Not only the U.S. agricultural market in the Community, which is worth around $9 billion a year, but U.S. markets in other countries of the world would be threatened if the protectionist proposals that have surfaced become realities.

With the United States a major producer and the leading exporter of agricultural products, this administration places tremendous importance on achieving a more open and stable trading system. We believe that the European Community, as another major producer and trader, shares a responsibility to work toward such a system.

So we are seriously concerned when Community sentiment appears to be moving toward more restrictive trading policies rather than toward a system of trade based on the principles of efficiency and equity.

The Community's recent steps toward increased protection stem from a domestic policy which encourages overproduction through the use of high support prices as well as processing, production and export subsidies. This policy has enabled the EC to achieve self-sufficiency for all major agricultural products, except for oilseeds. Moreover, surpluses have developed in several sectors and have led to increasingly higher budget costs. Community expenditures on agriculture, including support and subsidy payments, totaled $16.5 billion last year, approximately two-thirds of the total EC budget.

In the recent past, Community leaders have considered a policy of taxing farmers for surplus production in order to alleviate financial difficulties. However, this policy has been implemented sparingly and with little effect, so EC policy makers have shifted the cost of domestic programs to its trading partners in the form of export subsidies, import levies and other restrictions.

We have two general concerns regarding the EC's approach to agricultural trade. First, the EC has adopted an increasingly aggressive export policy, using subsidies to dispose of surpluses on world markets, particularly wheat and wheat flour. At the same time, export subsidies are used to dispose of excess production of poultry meat, beef, sugar and dairy products. Now, the Community appears to be moving towards the adoption of a policy designed to dispose permanently of surplus production in international trade. This would involve the conclusion of long-term bilateral agreements, special credit arrangements and the expanded use of export subsidies.

Such a plan would impact directly on United States exports, particularly grains and poultry, and would put genuine strains on the trade relations between the United States and European Community. An EC policy which enables the Community to gain an inequitable share of the world market at the expense of other suppliers is one we cannot and will not accept.

Our second concern is what appears to be an increasing threat to access to the EC market for American agricultural products. The Committee members know that the EC Commission recently considered a draft proposal to impose a tax on vegetable fats and oils. The U.S. Government made a strong demarche to the Commission concerning the proposal.

I am pleased to tell you that our Mission in Brussels informs us that the Commission has dropped the plan to impose this tax. While reference to a tax is still included for presentational purposes in the Commission's proposals, it appears that the Commission has decided to look at other alternatives and to defer further consideration until the Article XXIV:6 discussions which will follow Spanish accession. We are encouraged by the responsible attitude of Commission officials regarding this matter.

This Administration will continue to take strong positions whenever proposals which are detrimental to vital U.S. trade interests are put forward by other countries.

A related concern involves a GATT Panel report which rules that Spain's domestic consumption quotas on soybean oil are not in violation of the GATT. The United States remains strongly committed to opposing the Spanish quota system. Making sure that the Panel findings on these quotas are not adopted by the GATT Council is one of our foremost trade policy goals at USDA. Not only would adoption set a dangerous precedent for the future of international trade in general, the EC could use the Panel report to justify the implementation of similar restrictions on the use of products derived from imported commodities.

At this point, we believe the Council will take up the Panel report in November. We have circulated a brief defending our position among the GATT members. In addition, we are seeking support for our efforts from the governments of key GATT member nations.

The United States is also seriously disturbed by Community pressures to limit imports of feed-grain substitutes, particularly corn gluten feed. Certain voices in the EC advocate unbinding the zero duty bound in the GATT. They cite as justification the growth in imports of corn gluten and fears that rising output of ethanol and corn sweetener production in the United States will sharply increase imports.

We have repeatedly stressed to Community leaders that these fears are unfounded and that the reason for the increase in U.S. exports of corn gluten feed to the EC is simply market price. Corn gluten prices in the United States in recent years have run about 25 percent higher than those for domestic corn, while the price of corn gluten in the EC has been about 20 percent below EC corn prices due to high support price levels and the levy which keeps corn import costs high.

As for ethanol, this administration has given a lower priority to gasohol production then the previous administration. We have also made it clear that with an export trade in feed grain substitutes valued at $600-700 million last year at stake, the United States would be forced to move decisively to defend its trade interests if the EC were to act to restrict our market opportunities.

These recent trade policy developments within the European Community are not encouraging. The United States has taken every opportunity to emphasize to Community leaders the significance we place on maintaining a liberal world trading system based on fair and true competition. We will continue to do so.

We believe strongly that the United States and the European Community have the opportunity and responsibility to work together in a joint leadership role for the benefit of world agricultural trade. Through cooperation we can work with other nations in creating an export climate that will provide greater opportunity for efficient producers, such as the farmers of Illinois and our other great agricultural states, to serve the world's needs. We will continue to work for this objective through cooperation with the Community and our other trading partners, but if this fails we are prepared to defend our trading rights wherever they are threatened.

That concludes my statement, Mr. Chairman. I will be pleased to take your questions.

Senator PERCY. Now, our final wrap-up panel will be Harold Dodd, Harold Steele, and Mr. Richard Vogen. We welcome you, as our final panel, and I want to reiterate my appreciation for your testimony today.

The first witness will be Mr. Harold Steele, president of the Illinois Farm Bureau since 1970. In 1972, he served as leader of the Illinois Trade Mission to the Soviet Union. Mr. Steele also operates a corn and hog farm near Princeton in Bureau County. Harold.

TESTIMONY OF HAROLD B. STEELE, PRESIDENT, ILLINOIS AGRICULTURAL ASSOCIATION, ILLINOIS FARM BUREAU, BLOOMINGTON, ILL.; HAROLD W. DODD, PRESIDENT, ILLINOIS FARMERS UNION, SPRINGFIELD, ILL.; AND RICHARD A. VOGEN, MARKETING SPECIALIST, INTERNATIONAL TRADE SECTION, ILLINOIS DEPARTMENT OF AGRICULTURE, SPRINGFIELD, ILL.

Mr. STEELE. Thank you, Mr. Chairman. I would like to echo the comments of the other panelists and the farmers across the State in commending and thanking you for calling this hearing on a very timely measure on a very, very important issue. The testimony before me, stated very clearly and precisely the problems before us, so I will spend my time in talking in other areas. At the same time, Mr. Chairman, I would like to address these comments to Secretary Hammer. Tom, I know that you know the importance of this issue to Illinois and American farmers, and I commend you and Secretary Block for keeping this issue so clearly enunciated to the other departments of this administration. I ask that you continue relentlessly to keep this issue before them, so that there will be continued understanding through this administration, of the importance of the economic issues to agriculture. Mr. Chairman, to you and your subcommittee, and to all of your colleagues in Congress, I encourage your continued leadership to keep the pressure so there will not be reneging on the part of the European Community, a valued customer, an important customer of the farmers of this nation. With these comments, I would like to address myself to four other issues. The first issue would be that of embargoes.

The farmers of this State, yet, this morning, as they are combining a new crop of corn and soybeans and finishing their wheat, are still suffering from embargoes in the past, I commend you, Mr. Chairman, and Senator Dixon, for your determination that a like circumstance will not occur in the future, if humanly possible. We agree with the original language that you have placed in the text. We know some substitute language has crept in. We hope the substitute language, not as good as yours, originally, will be adequate in preventing any future administration from invoking an embargo, where the House and Senate would have to concur. The 60-day factor, we understand; but we wish it weren't there.

Senator PERCY. I can assure you that there is no subject on which Senator Dixon and I concur more than this particular subject. What we are faced with is trying to do something with this administration, because President Reagan spoke out very forcefully on the embargo when it was first imposed. We want to work with the administration and with Secretary Block, and we are trying to work it out in such a way that we can have their enthusiastic support for what we are doing. I believe it will lock it in as firm policy.

Mr. **Steele**. The second area I'd like to address myself is that of the role of Government in assisting and encouraging exports. There are two areas, we believe, that are significant. The first are the provisions of the Senate-passed farm bill to establish a CCC revolving fund to assist in the financing of exports. The second is that the benefits of the Export-Import Bank should be available to improve the financing capability of agricultural exports. We hope this measure will be passed. Third, and I want to speak to an area that I think was previously addressed to you, Mr. Chairman, presented by Mr. Taylor. It pertains to exporting value added agricultural commodities. It's significant to note that we have exported substantial increases of raw materials. It's significant to note that we have 50 percent of the food supplies traded in the world from this country. We have been super in increasing the raw product exports, course grain, soybeans, cotton, and other commodities. But we have been very derelict as a nation in not moving forward more aggressively in exporting value added agricultural commodities. We have the competence on the farm. We have the facilities and the animals to increase red meat production. We have also the expertise in the efficient conversion of excess feed grains and soybeans into red meat, poultry products, and diary products. And we also, as enunciated by Mr. Taylor, the expertise in labor, in transportation, and in processing. We are able to convert all this into very valuable commodities in a world that is, in many instances, starving for these commodities.

What we need to do now is use our ingenuity and trading capabilities that we seem to have lost a number of years ago, to make it possible for these agricultural commodities with value added products to reach those stores, to reach the hungry stomachs, and reach the desiring hands, to have these commodities available to them. We can do it. We must do it. We must believe in a front-door approach.

And finally, this subject is really not strictly a trade issue, but it is vital to us in Illinois and across the Nation, as it pertains to the waterway system. In the Farm Bureau, we support very strongly and vigorously a new lock and dam structure, Lock and Dam 26. At that time, we also agreed on accepting a modest user fee, and we now understand that there are additional taxes proposed, in cents per gallon, beyond what we anticipated at the time we agreed to it. And I'd like to fininsh my comment by saying——

Senator **Percy**. May I just interrupt you there. You remember, we did have a few differences of opinion, between myself and say the large operators, and some farmers on a user fee. I took an adamant position. I was awfully sorry to oppose some of my dear friends, because I would not support it without a user fee. I figured simply that the free lunch was over. There was no way we could subsidize that transportation totally and completely. It was unfair to truckers, unfair to railroads, and I felt the rug would be pulled out if we didn't have something financially wise. We have a user fee. It's modest. I think that guarantees we are going to go ahead, but we do have now what I knew would come down. Dave Stock-man, a former colleague in Congress, is a tough-minded guy, and supports a user's fee.

There may have to be an increase. We are going to fight to keep that fair and reasonable, but we want that work continued. We want it funded, and Alan Dixon and I and the whole Illinois delegation, including Ed Madigan, are going to fight to keep that together. And we agree with what you have just said, but, again, we can see possibly a substantial increase in user's fee, without having seen the economic study. It's got to be fair and we have got to take into account that today's agricultural production costs are far greater than market prices can support. How much is fair to someone who may be losing money?

Mr. **Steele**. I will wind up my comments by saying, as previously mentioned, we are now living in an area, as farmers, with the lowest net income, based on 1967 dollars, since 1934. This issue is serious, for we must retain the family farm concept. Mr. Chairman, the subject today cannot be more vital, at a time when the combines are running. Farmers are happy in full production. This Nation needs to have this economic strength. We as farmers, we commend you, as a vital person in the Federal Government today, and the people that appeared in this administration, this panel, to keep this ball rolling at a time when Illinois farmers are looking to leadership. There is a kind of a leadership in the Senate and the House that's different this year and last year than previous years, a difference in administration, as we look to the export market. I commend. We thank you, and we are relying upon you. Thank you.

Senator **Percy**. Thank you very much indeed, and we are making progress. The family farm is the backbone of American agriculture. We are going to keep it that way. Certainly that $60,000 exclusion from the estate taxes was ludicrous. We fought to get it up to $175,000. Now we are moving to get it up to $600,000. We are getting realistic about that, but there is no better solution than fair prices. They are competitive prices and fair prices, and they are way below production prices today, and we can't tolerate that.

The American Agricultural Movement was not asked to testify today, because I was not familiar with the fact that they had taken positions in these particular matters that we are discussing today. They have, however, asked to testify, and I would ask at this time that James B. Milligan, assistant coordinator of the American Agricultural Movement of Illinois, to take a place at the table here.

Our next witness will be Harold Dodd, longtime friend who is president of the Illinois Farmer's Union. Mr. Dodd has lived on the same farm for 37 years, just southwest of Springfield, where he farms 1,500 acres of soybeans and corn.

Mr. **Dodd**. Thank you, Mr. Chairman. I too want to commend you for this great timely hearing, and thank you for the opportunity to present my few words of testimony. I have a feeling that I was invited to testify, expecting my testimony to be a little different than most, and I think is a variety is sort of the spice of life. Having thought everything would be said, the things we are concerned about, I have devoted most of my time to talking about some of the things that I think we need to clean up our own act at home, in relationship to the problem of the issue. As a farm leader of a farm organization on whose members' principal income is derived from the sale of soybean and feed grains, I am of course deeply concerned about the threat of the European move toward limiting importation of soybeans and corn gluten feed. I believe that every effort must be made to see that America retains its fair share of the export market, and that we get fair, just treatment in GATT negotiations.

However, I have always thought that it would be unwise to throw stones if you live in a glass house, meaning that, before we get too brazen with our accusations, we might want to look at some of the unwise things that we as a nation have done to our potential importers abroad and, in my opinion, what we have not done for the producers of these commodities in America, the farmers.

We are quick to condemn the Europeans for their high price supports that keep farmers on the land, but, by the same token, we are talking the absolute opposite approach in America, with price supports that are an insult to the agricultural industry. This is helping to drive our farmers off the land to the tune of 21,080 farm families every week of the year. There is surely some——

Senator PERCY. Read that again.

Mr. DODD. According to the last census, we have been losing 21,080 farmers every week of the year in the last 4 years. That's directly a quote from the Farm Census, and I don't believe we can continue that trend. And I happen to believe that the basic reason for them leaving is the fact that you have to farm a township or a county with these kinds of pricing structures, with the cost input being what they are, in order to have an economically viable unit. And so, therefore, I think we need to do something about that, and that's why I say there is surely some happy medium between what the Europeans do for their farmers and what we are doing here for ours.

I might stop my prepared statement to explain just a moment, if I may, that we tend to think in terms of a free enterprise system, and pride ourselves in free enterprise system, but we have a Government which, in our opinion, does away with the free enterprise system. In 1973, we had an embargo; 1975, we had two embargoes; 1977, when the beef prices started sticking its head up, we drove the prices back down. Frankly, we have a cheap food policy that prevails in Washington, which will interfere and, according to my interpretation of a free enterprise system, one must enjoy the highs in order to be able to exist with the lows. And when the Federal Government consistently takes out the highs, then we don't have a free enterprise system. And I am not saying that just to blame this administration. This has been prevailing since about 1954, under various sundry administrations of both parties. My reason for believing that the Federal Government is obligated to give us a support price that is at least geared to somewhere near the cost of production is because they have obligated themselves so in taking out our highs. I'm going to go on with my statement.

I have always believed, in order to truly evaluate a given situation, you must try to put yourself in the other party's shoes. When I do this, I can certainly see why the Europeans would get tired of trying to constantly dump our cheap commodities in their markets, and then try, constantly, to bring pressure on their government to change their foreign program so that they will run their farm program like we do here.

We appointed Secretary Block to help the USDA, a man who knows and understand agriculture. Yet, it is Secretary Haig who blocks the sale of 400 tons of butter to Russia at $1.05 a pound. And we have to be forced to sell it to New Zealand for 70 cents a pound. As you quite well know, chalk it up to a bad experience in the milk program, to further substantiate the argument that we ought to get better supports because it's costing too much. In my opinion, even worse, we sent Secretary Brock, not Block, to negotiate a grain settlement with Russia. To me, this is the wrong approach. I just don't understand these kinds of things.

In an unprecedented act, the Office of Management and Budget got the Congress to approve a budget before they considered the 1982 farm bill and, for all practical purposes, tied the hands of Congress from passing any meaningful price support bills or supply-management programs that would have any effect upon helping farm prices.

Since I believe that the principal cause for dissension in the importing nations and at home with our farming communities is the price of our commodities, I think it is imperative that the USDA lead the way in a greater effort to negotiate with all other exporters to establish an agreeable floor price for all exports. This was tried 2 years ago on wheat between the United States, Canada, Australia, and Argentina. These four countries furnish 96 percent of all the wheat that's exported, and it was the United States that refused to seriously negotiate the issue of establishing a floor price on wheat exports. In my mind, this is creating a cartel. We don't like a cartel world.

In summarizing, just let me say that the world is getting smaller every day. Thus, the greater necessity to learn to live, trade, and play together. But there is no one-way streets. We cannot continue to believe that we are always right and that everyone should do it like we do.

Senator PERCY. Next we will hear from Richard Vogen, marketing specialist in the international trade section of the Illinois Department of Agriculture. He will be addressing the need to increase value added exports.

Mr. VOGEN. Thank you, Mr. Chairman. I am sure that Mr. Larry Werries, our director of agriculture from the State of Illinois, would like to be here today, but he is presently in Europe. He is addressing some of these same issues while promoting some products from Illinois processing firms at a major food show. I think the issues of soybean oil and corn gluten feed have been addressed adequately here. Just suffice it to say that the immediate impacts of protectionist movements against these products will definitely affect Illinois and its economy. The Illinois Department of Agriculture is very concerned about expanding international agricultural trade and supports open access to markets such as the EEC. That is one of the reasons why we maintain an office in Brussels, Belgium, and our people are involved there, negotiating these issues.

I would like to address another question a little more fully, "Are we fully exploiting our competitive advantage in production of food and agricultural products?" Illinois is a very populous and industrialized State. We are a leading agricultural State, and the leading agricultural export State. The economic activity resulting from these exports undoubtedly benefit this State's economic health, and we are very dependent upon exporting. Almost all of the agricultural products exported from the United States will undergo a series of processing steps before they reach some ultimate consumer, whether it's here or overseas. The gains to be had from further processing of our products are higher farm income and industry revenues, higher employment, and economies of scale in agricultural processing. If you look at Illinois and its makeup of manufacturing industries, we have in excess of 1,000 firms that manufacture, in some form or another, food and processed products. Adding value is very important to all of these firms, both large and small.

There are many external factors that are very important in determining the nature of U.S. agricultural exports. We have discussed some of them here, particularly the trade and agricultural policies of major importing and exporting countries, and especially tariffs and levies. There are other factors including the level of agricultural production around the world, the pace of economic activity, demographic trends, and very importantly, the value of the U.S. dollar, which has had a major effect on our exports in the last year or so. Another important part, tied very closely to this effort, is simply the market acceptance of various products which we have for sale to overseas buyers.

Now I will turn to domestic considerations in a somewhat different vein than did Mr. Dodd. The United States does have significant capacity to increase its proportion of processed product exports. Again, external factors serve to moderate that potential to some degree. Processed products are more diverse by nature than the raw commodities. They require a greater marketing effort and more expenditures for sales than raw materials. So, we have to provide incentives for the farms and individuals to pursue these markets. We have to consider that profit potential and long-term market consistency are necessary to our exporters. The United States has always been at something of a psychological disadvantage, simply because we are blessed with a gigantic domestic market. We have not been forced to acquire international trade skills to the same extent that some of the Japanese and other competitors have in the past, and we have failed to develop a coherent long-term agricultural trade policy. Times have changed. We are now very vulnerable to fluctuations in world prices and changes in trade practices.

As the first step toward realizing our potential, I'd like to applaud the business and labor coalition. We have to come together as farmers, businessmen, labor promotion organizations, and Government to lobby for national export policies in regard to agriculture, then be consistent over a very long period of time. In echoing Mr. Steele's comments, we should look at export credit policies to provide credit terms that are competitive with our competing nations and are accessible to all exporters. The CCC revolving fund is indeed a step in that direction, as is Eximbank financing. Perhaps, if we are going to encourage more processed product exports and entry into world markets, we have to look at the investment that companies require to produce their diverse products to meet the consumer needs overseas. Perhaps some tax incentives should be provided for those people.

One of the tax incentives that I believe has been instituted in the last tax package, is to give a more favorable tax situation to Americans working overseas. I think that we have limited ourselves in the past by making it noncompetitive to have Americans overseas.

I also have one more comment on the embargo situation. We have to support policies that will discourage the use of food embargoes as political retribution. Mr. Chairman, your proposal, is in the right direction.

Senator PERCY. Thank you very much, and I also want to thank your department for the fine cooperation that we have had. I know that every effort I make in export sales from Illinois is closely coordinated with your department.

I can remember the building of the worldwide business that expanded Bell & Howell sales from $13 million to $160 million, while I led the company. I didn't do it by sitting in Lincolnwood, Ill. I had to be all over the world. Every time Governor Thompson takes a trade delegation abroad, we closely coordinate it, and I have found now that I am able to help pave the way. He can see anyone he wants, every country he ever wants to. He has got the full backup of the Foreign Relations Committee. He is doing America's business. He is creating jobs right back here in Illinois. We closely coordinate our activities. We are dealing with agricultural products. We should not overlook the fact that we have got a tremendous responsibility now with high interest costs, and lower income.

It's been pointed out by Harold Dodd, that our agricultural implement industry, which has world headquarters in Illinois, is really hurting. International Harvester laid off 2,500 people, and we have got to fight now for them. And though Secretary Haig and I disagree on a couple of issues, we got into a few recently about the butter situation, he did lead the fight to help Caterpiller. I just held hearings on a whole new set of equipment, that employs thousands of Illinois workers, that lowers the production costs for farm implements. And I found in this regard that working with Secretary Haig on world problems every day of the week has helped immensely in his having a better understanding of our needs here in Illinois, and we are going to find increasingly, a receptive and hardworking Secretary of State thinking in terms of trade. We are trying to beef up the whole trade area which has been woefully weak in the past, and we are trying to have them recognize that political friendships come from those trading transactions. You can't expect farmers to go out and sell the product. The Government has to work with us. It's got to be a coordinated effort, and the leader has to be Secretary Block in this case.

[The prepared statements of Messrs. Steele and Dodd and the prepared statement of Larry A. Werries, director, Illinois Department of Agriculture, with an addendum follow:]

Statement By
Harold B. Steele, President
Illinois Farm Bureau
to
Subcommittee on Energy, Nuclear Proliferation
and Government Processes
October 16, 1981
Urbana, Illinois

Thank you, Mr. Chairman.

I am Harold B. Steele, a grain and livestock farmer from Dover, Illinois and President of the Illinois Farm Bureau, a voluntary membership organization which has in its membership some 75% of the farmers of Illinois. Mr. Chairman, we commend you for calling this hearing to examine some of the developing protectionistic attitudes that are surfacing in the EEC, specifically as they relate to soybean oil and corn gluten meal. I believe the two panels on soybeans and soybean products and on corn gluten meal have both accurately and completely analyzed the challenges and the possible consequences of any protectionistic action by the EEC. I concur with the seriousness of the challenge and the necessity of taking decisive action to dissuade the EEC of precipitous decisions toward a restrictive trade policy. I hope, Mr. Hammer, that all parties in the administration recognize the significance of this issue to Illinois and American farmers as I know you do and will join in applying the necessary pressures on the EEC to avoid a major step backwards in the movement toward mutually advantageous trade. Likewise, Mr. Chairman, I would hope you, your subcommittee and all of your colleagues in the Congress would make it clear to the EEC that any move to renege on current zero bindings or to set new restrictions in place could bring grave consequences to our trading relations, including retaliation. Because this issue has been well discussed, I would like to address several other aspects of our international trade where we believe government action can be helpful.

1. Mr. Chairman, Illinois farmers are still very bitter over their experience with grain embargoes and apprehensive about the future use of the embargo, either as a means to retain short supplies at home or as a tool of international diplomacy. Unfortunately, we are still "paying" for our embargo actions of the past. Questions remain about the reliability of the U.S. as a supplier. Development of alternate supplies have been encouraged. For these reasons, we must work toward the elimination of selective embargoes in the future.

   We commend you, Mr. Chairman, and Senator Dixon for your efforts to amend the Export Administration Act as a step toward this end. We believe your original language to prohibit a selective embargo, unless authorized by the concurrence of both houses of Congress, was a sound approach to this problem. We recognize that some agencies of the executive branch of government would be uncomfortable with such legislation. While we preferred your original language, we believe the compromise language to require both Houses of Congress to concur in order to continue a selective embargo for more than 60 days will have some deterent value in causing the administration to consider the consequences of possible repudiation before embarking on a precipitous selective embargo. We believe the provision of S. 884, the Senate passed Agriculture and Food Act of 1981 which would base price support loans or payments on 100% of parity in the event of an embargo can also serve as a deterent to selective embargoes. We hope that the final version of the 1981 Farm Bill will contain a like provision. We believe protection from further selective embargoes is a proper function of Congress in its policy making role.

2. We believe the government has a role in assisting and encouraging exports. We support the provisions of the Senate passed Farm Bill to establish a CCC revolving fund to assist in the financing of exports. It is a sound program and should be a part of the final Farm Bill. This type of government activity is used by our competitors in numerous other countries as a means of encouraging exports.

   Similarly, we believe the benefits of the Export-Import Bank should be available to agricultural exports. In the past the Export-Import Bank helped finance the exportation of cotton and breeding animals. The use of Export-Import Bank financing for ag exports was discontinued early in the previous Administration. Congressman Cooper Evans of Iowa has introduced legislation which would earmark a portion of the Export-Import Bank financing for agricultural products equal to the portion that ag exports makes of total U.S. exports. We believe legislation of this type should be passed by Congress.

3. We believe greater emphasis should be placed on the exportation of value added agricultural products such as meats, dairy and poultry products and other processed foods. The U.S. supplies 50% of the food products on the world market. Most of these "raw" products are coarse grains, cotton, fruits, vegetables and live animals. The U.S. farmer possesses the management skills and the facilities for those animals to convert surplus supplies of grain into meat, poultry and dairy products. Likewise, we have the technology, the skilled labor and the management know-how to export processed products. To be successful in this endeavor, we will need aggressive salesmanship on the part of our food industry, tough negotiations on the part of our government to reduce the barriers and restrictions against U.S. value added products and a willingness on the part of both labor and management to implement every conceivable means to increase our productivity in producing consumable products tailored to the ultimate consumer needs.

4. My final subject is not strictly a trade issue but it certainly affects our competitive position in the export market -- that is the issue of user fees on our waterways. Farm Bureau supported the construction of a new Lock and Dam 26 at Alton, Illinois and accepted as a part of the legislation a modest user fee based on the fuel used for river traffic. Now before we have even assimilated those fees, it is being recommended that substantially higher fees be imposed on river commerce. We have seen no economic analysis of what impact these fees would have on the cost of moving products both up and down the river nor any justification of how the costs were allocated to the various benefits of the river--flood control, water supply, recreation, wildlife and commerce. Until better information is available on the impact of these fees and a breakdown of what portion of the total cost of maintaining the rivers are to be borne by water traffic, we would oppose the imposition of additional user fees.

Again, Mr. Chairman, we commend you for holding this hearing and examining a few of the critical issues facing us in the exportation of farm products. As we look at record grain crops being harvested, few, if any, subjects will be more important to the economic survival of Illinois farmers than the subject before us today. We stand ready and willing to work with you for the expansion of the export markets for Illinois farm products.

Thank you for this opportunity to present a few of our concerns in this regard.

HAROLD DODD'S TESTIMONY
PRESENTED AT SENATOR PERCY'S HEARING ON IMPORTS AND EXPORTS
FRIDAY, OCTOBER 16, 1981, URBANA, ILLINOIS

AS A LEADER OF A FARM ORGANIZATION WHOSE MEMBERS' PRINCIPLE INCOME IS DERIVED FROM THE SALE OF SOYBEANS AND FEED GRAINS, I AM DEEPLY CONCERNED ABOUT THE THREAT OF THE EUROPEAN MOVE TOWARD LIMITING THE IMPORTATION OF U. S. SOYBEANS AND CORN GLUTEN FEED.

I BELIEVE THAT EVERY EFFORT MUST BE MADE TO SEE THAT AMERICA RETAINS ITS FAIR SHARE OF THE EXPORT MARKET AND THAT WE GET FAIR, JUST TREATMENT IN THE G. A. T. T. NEGOTIATIONS.

HOWEVER, I HAVE ALWAYS THOUGHT IT UNWISE TO THROW STONES IF YOU LIVE IN A GLASS HOUSE - MEANING THAT BEFORE WE GET TOO BRAZEN WITH OUR ACCUSATIONS, WE MIGHT WANT TO LOOK AT SOME OF THE UNWISE THINGS THAT WE AS A NATION HAVE DONE TO OUR POTENTIAL IMPORTERS ABROAD AND, IN MY OPINION, WHAT WE HAVE NOT DONE FOR THE PRODUCERS OF THESE COMMODITIES IN AMERICA, THE FARMERS.

WE ARE QUICK TO CONDEMN THE EUROPEANS FOR THEIR HIGH PRICE SUPPORTS WHICH KEEP THEIR FARMERS ON THE LAND, AND WE ARE TAKING THE ABSOLUTE OPPOSITE APPROACH WITH PRICE SUPPORTS THAT ARE AN INSULT TO THE AGRICULTURAL INDUSTRY IN AMERICA. THIS IS DRIVING OUR FARMERS OFF THE LAND AT THE RATE OF 2180 FARM FAMILIES PER WEEK. THERE IS SURELY SOME HAPPY MEDIUM.

I HAVE ALWAYS BELIEVED THAT IN ORDER TO TRULY EVALUATE ANY GIVEN SITUATION, YOU MUST TRY TO PUT YOURSELF IN THE OTHER PARTY'S SHOES. WHEN I DO THIS, I CAN CERTAINLY SEE WHY THE EUROPEANS WOULD GET TIRED OF US TRYING TO CONSTANTLY DUMP OUR CHEAP COMMODITIES IN THEIR MARKETS, AND THEN TRY TO BRING PRESSURE SO THAT THEY WILL RUN THEIR FARM PROGRAM LIKE WE DO HERE.

WE APPOINTED SECRETARY BLOCK TO HEAD UP THE U. S. D. A. - ONE WHO KNOWS AND UNDERSTANDS AGRICULTURE. YET IT IS SECRETARY HAIG WHO BLOCKS THE SALE OF 400 TONS OF BUTTER AT $1.05 PER POUND TO RUSSIA, AND WE HAVE TO SELL IT TO NEW

ZEALAND FOR $.70 PER POUND AND AGREE NOT TO EXPORT ANY MORE BUTTER UNTIL NEXT JULY WITHOUT NEW ZEALAND'S BOARD APPROVAL. EVEN WORSE, IN MY OPINION, IS THAT WE SENT SECRETARY BROCK NOT BLOCK TO NEGOTIATE A GRAIN SALE WITH RUSSIA.

IN AN UNPRECEDENTED ACT, THE OFFICE OF MANAGEMENT AND BUDGET GOT THE CONGRESS TO APPROVE A BUDGET BEFORE THEY CONSIDERED THE 1982 FARM BILL, AND THIS VIRTUALLY TIED THE HANDS OF CONGRESS FROM DEALING WITH ANY MEANINGFUL PRICE SUPPORTS OR SUPPLY-MANAGEMENT PROGRAMS THAT WOULD HAVE THE EFFECT OF HELPING FARM PRICES.

SINCE I BELIEVE THE PRINCIPLE CAUSE FOR DISSENTION IN THE IMPORTING NATIONS AND AT HOME WITH OUR FARMING COMMUNITIES IS THE PRICE OF OUR COMMODITIES, I THINK IT IS IMPERATIVE THAT THE U. S. A. LEAD THE WAY IN A GREATER EFFORT TO NEGOTIATE WITH ALL OTHER EXPORTERS IN ESTABLISHING AN AGREEABLE FLOOR PRICE FOR ALL EXPORTS. THIS WAS TRIED 2 YEARS AGO ON WHEAT BETWEEN THE U. S., CANADA, AUSTRALIA, AND ARGENTINA. THESE FOUR COUNTRIES FURNISH 96% OF WORLD WHEAT EXPORTS, AND IT WAS THE U. S. A. THAT REFUSED TO SERIOUSLY NEGOTIATE THE ISSUE OF ESTABLISHING A FLOOR PRICE ON WHEAT EXPORTS.

IN SUMMARIZING, JUST LET ME SAY THAT THE WORLD IS GETTING SMALLER EVERY DAY. THUS, THE GREATER NECESSITY TO LEARN TO LIVE, TRADE AND PLAY TOGETHER. BUT THERE ARE NO ONE-WAY STREETS. WE CANNOT CONTINUE TO BELIEVE THAT WE ARE ALWAYS RIGHT AND THAT EVERYONE SHOULD DO IT LIKE WE DO.

STATEMENT OF
THE ILLINOIS DEPARTMENT OF AGRICULTURE
MR. LARRY A. WERRIES, DIRECTOR
BEFORE THE
COMMITTEE ON GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON ENERGY, NUCLEAR
PROLIFERATION AND GOVERNMENT PROCESSES
UNITED STATES SENATE
OCTOBER 16, 1981

The vital importance of American agricultural products in world trade is well-known, especially in regard to raw commodities such as wheat, feed grains, and soybeans. American agricultural exports have grown to more than $40 billion, generating new demand for farm products and income for farmers, and greatly offsetting America's negative balance of trade. In 1981, anticipated agricultural exports of $46 billion are expected to create $94 billion of activity throughout the United States economy, and jobs will be provided for 1.2 million full-time equivalent workers.[1]

This hearing focuses on the increasingly protectionist moves of the European Economic Community (EEC) against processed agricultural products from the United States. Since the particular products in question are soybean oil and corn gluten meal, the immediate impacts of protectionist moves against these products will be felt in the Illinois economy. The Illinois Department of Agriculture is concerned about expanding international agriculture trade, and supports open access to markets such as the EEC.

Since the particular questions in regard to soybean oil and corn gluten meal are being addressed in other testimony; I would like to discuss the importance of value added exports in general. In spite of impressive export figures, the question can always be asked, "Are we fully exploiting our competitive advantage in production of food and agricultural products?"

It has been the posture of the Illinois Department of Agriculture for several years to support the concept that the United States take fuller advantage of world demand for our food and agricultural products. The

Illinois Department of Agriculture developed and maintained a program of services to aid farmers, agribusinesses and food processors in exporting their products. This program continues to serve the needs of large and small exporters of agricultural products from Illinois.

Illinois is a populous and industrialized state, and is also the leading agricultural export state, ranking first in exports of feed grains, soybeans, protein meals, and soybean oils. Economic activity resulting from agricultural exports greatly benefit this state's economic health.

Almost all of the agricultural products exported from the United States undergo a series of processing steps before reaching the ultimate consumers. Economic activity resulting from these processes is substantial. The theoretical gains to be had from further processing of our agricultural products will be more farm income and industry revenues, higher employment, and economies of scale in agricultural processing. Much of the marketing effort by state departments of agriculture, along with federal and regional groups, has been to support value added exports. While raw agricultural commodities are exported by relatively few, highly competent and efficient companies, the processing of agricultural commodities into a tremendous array of products is carried on by thousands of firms. The Illinois Department of Agriculture facilitates exports from any of these sources.

Few attempts have been made to quantify the domestic economic and employment benefits that are implied by adding more value to our agricultural exports. Social, political, and economic trade realities greatly affect the attainment of our potentials.

By looking at the Illinois census data from 1977, one can see the importance of value added by manufacture of agricultural products to the state's economy. The following table[2] summarizes some of this activity for domestic and export consumption:

ILLINOIS INDUSTRY	TOTAL NUMBER OF ESTABLISHMENTS	TOTAL NUMBER OF EMPLOYEES (X 1,000)	VALUE ADDED BY MANUFACTURE (X $ MILLION)
Food & Kindred Products	1270	103.9	4725.6
Meat Products	218	14.6	426.9
Dairy Products	154	6.6	340.8
Preserved Fruits & Vegetables	119	10.8	456.4
Grain Mill Products	146	14.4	921.8
Bakery Products	173	16.1	584.6
Sugar & Confectionary	93	16.9	674.2
Fats & Oils	51	5.3	194.2
Beverages	142	10.9	717.5
Misc.	174	8.2	409.1

These data give an indication of the absolute size of the food products manufacturing activity in Illinois without showing any trends or analysis of its effect on exports.

Schluter and Clayton recently developed a net agricultural exports model that isolated the differential impacts of processed products, and they were able to present some preliminary estimates of the economic activity and employment associated with exports of raw ~~overseas~~ versus processed agricultural commodities.[3] They concluded that certain sizeable benefits do exist for the United States economy and employment situation from having a greater proportion of processed products in our agricultural export mix. Both direct and indirect advantages result from exporting processed commodities, since an export market is enlarged for the services required to assemble, process, and distribute the processed products. Greater employment prospects and new disposable income generated have indirect impacts on the economy, seen as a sequence of economic activity in the demand chain.

Table 2 shows a summary of Schluter's and Clayton's work with examples of the effects of processing on three economic indicators.

Net increases in gross output, employment, and income reflect a range of impacts from exporting certain processed products in place of the raw commodities. Dressed poultry exported in place of corn has considerably greater impact than the differential between raw and processed soybean exports.

Schluter and Clayton point out that due to the usual location of processing plants near the sources of raw commodity supplies, the net effects of exporting processed products tends to be concentrated in the same regions as the effects of exporting the raw products. New expansion of processing capacity could cause some regional shifts.

Problems are encountered with attempts to change the proportion of processed products in the agricultural export mix.

External factors are very important in determining the nature of United States agricultural exports including: (1) trade and agricultural policies of major importing and exporting countries, (2) level of agricultural production, (3) the pace of economic activity, (4) demographic trends, (5) the international exchange value of the United States dollar, and (6) market acceptance of processed products.[4]

An increasing number of countries today pursue policies that are designed to stimulate high levels of agricultural production and to encourage the development of their own domestic processing industries. The desire for food self-sufficiency, for favorable balance of payment situations, and for domestic employment and income benefits provide the impetus for countries to develop a variety of policies for price and income support, for resource use, and for new technologies. Various degrees of governmental intervention in foreign trade have developed and are increasing, serving to insulate national food and agricultural sectors from foreign competition. Policies that keep agricultural prices above world market levels can be maintained only by restricting the terms of entry of competitive products through tariff and nontariff barriers.[5] In general, trade barriers are lower for products that serve as inputs to a further stage of processing, i.e., raw commodities. A variety of nontariff barriers also are faced by United States agricultural exporters; licensing, state valuation, state trading, special duties on imports for port improvement, special standards, and health regulations.[6] As a leading export state and a major processing state, Illinois is very vulnerable to increased trade barriers.

By nature, further processing diversifies and expands the product mix offered for export. By purchasing value added products, additional demands are often placed on a country's limited foreign exchange earnings. Market demand is more selective and complex requiring more sophistication in meeting those demands, however, a country can derive long-term benefit from processed product imports. For example, if the Soviet Union were to import more protein concentrates, such as soybean meal, their ration formulations in animal feeds could be less dependent on imported feed grains.

External factors are not alone in holding down growth of processed agricultural product exports. Domestic considerations also influence American ability to increase the proportion of processed products in the export mix. Processed products require greater marketing efforts and expenditures per unit of sales than do raw materials, so incentives for individuals or firms to pursue these markets must be greater. Profit potential and long-term market consistency are necessary to our exporters. Continued expansion of our exports in processed agricultural products requires more investments in transportation and infrastructure to handle more specialized and diverse products. Small, medium, and large sized processors require the availability of credit and export aids. Increased processed food exports mean a greater need for qualified international marketing people. To commit the necessary resources, United States firms must see open market opportunities that will not be constantly threatened by new restrictions, external or domestic.

The agricultural community is concerned today about declining farm prices, in the face of rising interest rates. A stronger dollar is reflected in higher prices overseas for our agricultural products. Perhaps it is time to reevaluate some of our strategies and policies for international agricultural trade. In the present climate, it is unlikely that any massive new supports or subsidies will be instituted for American agricultural exports.

The United States has always been at a psychological disadvantage in international trade, simply because we are blessed with a huge domestic market and have not been forced to acquire international trade skills or to develop a coherent, long-term agricultural trade policy. Times have changed. In the past couple of decades, the United States has taken an ever greater role in world agricultural trade. Consequently, we have become more vulnerable to the fluctuation of world markets and changes in trade restrictions.

As a first step toward realizing our potential, farmers, businessmen, labor, promotional organizations, and government must come together to lobby for national agricultural export policies. A favorable export credit policy, providing competitive credit terms that are accessible to all exporters, would encourage more export activity. Production and investment in processing could be encouraged through tax incentives for exporting. Tax incentives that are competitive with other major exporting nations would encourage more companies to hire American personnel for their overseas positions, and would encourage more companies to acquire international trade management expertise. American firms need the management skills that will enable them to put their international marketing efforts on a par with their domestic efforts.

We wish to adhere as much as possible to the principles of free trade. American agricultural policies should insure American reliability as a supplier and should institute some systematic measures that would discourage protectionist actions overseas. If our buyers and competitors were certain that their actions would be followed by an American reaction, perhaps the doors would open more widely to the vast array of American food and agricultural products.

Finally, marketing efforts, especially in the case of processed products, are of paramount importance. Orders will not fall in our laps without first perceiving the needs of the world's diverse customers and marketing our products to them in a way that will provide the buyers with clear benefits. Systematic and readily available market research is necessary for up-to-date information on market potentials, buyers, and trade barriers.

Export promotion are presently carried on at several levels; industry and industry groups, commodity associations, chambers of commerce, and federal, state, and municipal government programs. Each of these efforts needs the support of the others to define their functions, avoid duplication of services, and to develop reliable supplier-overseas buyer relationships.

Table 2--National net effects of raw versus processed exports*

	Gross output			Gross employment			Personal income		
	Raw product	Processed product	Net change	Raw product	Processed product	Net change	Raw product	Processed Product	Net change
	Million dollars			Workers			Million dollars		
Flour for wheat	5.42	14.26	8.84	143	335	192	1.54	3.45	1.91
Dressed poultry for corn	5.32	50.22	44.90	147	1,300	1,153	1.40	10.69	9.29
Soybean oilmill products for soybeans	5.21	8.00	2.79	135	183	48	1.48	1.91	.43
Cottonseed mill products for cottonseed	5.61	13.28	7.67	209	372	163	1.36	2.96	1.60
Wet corn milling products for corn	5.32	14.21	8.89	147	337	190	1.40	3.37	1.97

*Based on million dollars in sales of raw commodity exports and equivalent amount of processed product.

FOOTNOTES

[1] Gerald Schluter and Kenneth C. Clayton, "Expanding the Processed Product Share of U.S. Agricultural Exports", ERS Staff Report No. AGESS 810701, National Economies Division, ERS, USDA, Washington, D.C., July 1981, Pg. 2.

[2] U.S. Department of Commerce, Bureau of the Census, 1977 Census of Manufactures, Geographic Area Series, Illinois, Table 5, "Statistics by Selected Industry Group and Industry for the State: 1977 and 1972", Pg. 14-13.

[3] Stephen C. Schmidt, "International Trade and Illinois Agriculture", AERR 166, Department of Agricultural Economies, University of Illinois, Urbana, Illinois, September 1979, Pg. 18.

[4] Ibid, Pg. 22.

[5] Ibid.

[6] G. Schluter & K. C. Clayton, Pg. 3.

ADDENDUM TO STATEMENT BY
THE ILLINOIS DEPARTMENT OF AGRICULTURE
LARRY A. WERRIES, DIRECTOR
BEFORE THE
GOVERNMENTAL AFFAIRS SUBCOMMITTEE ON
ENERGY, NUCLEAR PROLIFERATION, & GOVERNMENT PROCESSES
PRESENTED BY RICHARD VOGEN
OCTOBER 16, 1981
URBANA, ILLINOIS

Mr. Chairman:

In order to shed further light on the subject of expanding value-added agricultural exports, the following dicussion will dwell on some measures that we should support or research.

The United States should develop a general policy that stipulates our firm commitment to international agricultural trade. As part of this policy, we must insure American participation in international markets in spite of price and supply fluctuations and the political climate.

Credit aids to exporters are used by competitive countries. The Senate has proposed establishment of a Commodity Credit Corporation (CCC) revolving credit fund ~~to be~~ used for agricultural export financing. This is a step toward improving our competitive posture. However, if we intend to promote the expansion of value-added exports, credit terms should be available for a wider array of food products and products derived from agriculture. We should look for ways to accomplish this through the revolving fund concept or perhaps financing by organizations such as the Export-Import Bank.

Incentives for increasing our export potential can be achieved by reviewing and changing our tax formulas affecting international trade. The personal taxation issue for Americans working overseas has been under considerable scrutiny, and the situation is improved. Our own citizens, in aggregate, have the United States' best interests at heart, and we should continue to provide competitive incentives for U.S. citizens working abroad.

Additionally, we can look at the feasibility of providing investment credits to exporting firms for costs that they incur when they add processing steps specifically for export, comply with special trade requirements, or train international agriculture and food marketers.

The United States must strive for consistency in dealing with our international trade issues. The reliability of the United States as a supplier of agricultural products has been cast in doubt several times in the last decade. The agricultural community is concerned about the use of selective embargoes, either as a political weapon or to increase domestic supplies. Disincentives against the use of selective embargoes of agricultural products, such as those outlined in the Senate version of the Farm Bill should discourage these interruptions of our agricultural exporting activity.

Our first line of defense against protectionism overseas is to be consistently reliable as a supplier. It would certainly serve no purpose to instigate tariff wars through belated retaliation to protectionism. We should rely foremost on clear and persistent trade negotiations with our trading partners to reduce or eliminate barriers. Likewise, we must be consistent in allowing access to our own markets. However, if we decide that we have to use retaliatory measures against protectionist acts, certain automatic responses might be devised. Tariff responses, if well known in advance, might serve as deterrents.

Finally, after all is said and done, our best course is to view our competitors' efforts in marketing and promotion and devote our resources to doing the marketing job better than anyone else.

Senator PERCY. Our final panelist, Mr. Milligan, from the American Agricultural Movement. I would like to say, one of the most recent additions to my advisory board is from the AAM. I think I am the only Senator that still has an agricultural advisory board, and it is one of the valuable associations I have had. We have literally seen policy change right in our office. We recommended the removal, for instance, of price controls on fertilizer, and by the time nightfall came, the Secretary heard our word and removed them. So, we have clout, and we have it simply because I have got the finest agricultural advisory board in the country. And Dr. Roger Menees from rural Anna, has done a good job, as an advocate of his position. We appreciate his point of view and his right to express it.

We are delighted to have today James Milligan, to represent the American Agricultural Movement in Illinois. Mr. Milligan.

TESTIMONY OF JAMES B. MILLIGAN, ASSISTANT COORDINATOR OF THE AMERICAN AGRICULTURAL MOVEMENT OF ILLINOIS

Mr. MILLIGAN. Thank you, Senator. In the interest of time and appreciation for your courtesy in allowing me to testify at this meeting, I shall be as brief as possible.

Agricultural prices are at the lowest level since the Depression of the 1930's. This disasterous low level for farm prices is reflected in high unemployment, business failures, and farm bankruptcies. In fact, there are few, if any, industries who are not adversely affected by a lack of profit at the farm level. In short, since agriculture is the backbone of the Nation, if it fails, the Nation fails. All of these factors point to one result: The demise of America as an independent sovereign Nation. We cannot afford to let it fall into the hands of only a few producers or forces whose ideology is foreign to the principles upon which America was founded. We can best judge the future by recalling the past.

We had a prosperous period during the decade of the 1940's. This was made possible by the Steagle Act, which provided for 90 to 92½ percent of parity. On December 31, 1949, President Truman terminated the act, and we immediately went into a depression. We have been on the skids ever since. Why have we abandoned a concept which works? According to the reputable research work of the emminent economist, Carl Wilkin, agriculture in a properly balanced economy contributes about one-seventh or 14 percent of the national income. In 1980, the national income was $2,119.5 billion. Fourteen percent of this, or $296.7 billion should have come from agriculture. However, agriculture's contribution was only $153.8 billion, leaving a deficit of $142.9 billion. This was because agricultural products were not sold at the parity level. New wealth in terms of real dollars cannot be generated at any level in the overall economy, other than the raw material level. A simple example should suffice. An $8 billion bushel corn crop, at $2 per bushel, can yield to the farmer $16 billion and, to the economy, $112 billion, since the farmer's dollar in the economic cycle is multiplied approximately seven times its value at the production level.

By comparison, parity price for corn at $4.89 per bushel would have yielded to the farmers $39.012 billion and, to the economy,

$273.084 billion. The computation is for corn only. This is not inflationary, since it is a proper use of the dollar already in the economy. In fact, it would tend to decrease inflation, and, add to the monetary and material wealth of the consuming public. The sale of raw materials production at parity prices creates credit for the consumption of that production: The immediate effect of that increased generation of money would be an increased demand for goods and services, higher employment, decrease in welfare, a broader tax base, and lower interest rates, since the demand for money would decrease.

The program which I suggest is one of extreme simplicity. I suggest that we have a law or a Presidential mandate that agricultural products shall sell at the market place for not less than 100-percent honest parity, based on 1947 and 1949 prices. The condition of the economy shall then determine the actual price. This need be no more complicated than the minimum wage law, except that there must be some control put on production, such as all farmers shall reduce their crops on a percentage basis, and put that percentage in soil conserving crops, not to be harvsted or sold. The second phase pertains to wages which should be tied to the parity concept. The third part concerns international trade. So-called free trade should be replaced by equity of trade. This simply means that the United States will not allow any raw material or goods to enter the United States for less than our own cost of production, plus transportation costs. A tariff should be imposed on all importing firms. The tariff will be the difference between production costs abroad and the United States. The tariff collected shall go in a special fund for the exporting country to buy U.S. goods at full parity price. No money should be exchanged between nations, only goods and services. If they do not wish to trade them, the tariff collected shall go into the U.S. Treasury.

This is a very simple plan. The cost to the Government is nil, not 1 cent. Also, it is not inflationary. Because of parity prices, money serves its proper function in the exchange of goods and services. Since nothing else has worked successfully, this program should be tried and, if successful, should be adopted as a permanent program. The administration's program is essential but incomplete. It does not provide for the generation of money. This is essential for economic health and national prosperity. The economy will fail if the economic engine is not started and a balance of the various segments of the economy is not established. Responsibility for the possible demise of this Nation must lie with those who respond to the greed and selfish interests, of special groups, rather than to the true needs of the Nation. Credit must be given to others for the above program. I think it is simple and can solve many of the Nations' problems. It costs nothing except effort. It can be very effective in promoting prosperity for all America. And that terminates my testimony, and I thank you very kindly.

Senator PERCY. Thank you, Mr. Milligan. You have given this to me in the form of a letter to be discussed with the President. I will see that it is transmitted to the assistant to the President, and it will get into his hands. I would have to say that the simplicity of the proposal, as you related, is to not permit in the United States any product, any raw material or goods for less than our cost of production plus transportation cost. It might have been a very simple thing for me as a leading manufacturer in the world to say that nothing could come into this country that exceeded our production cost. That's what I am sure the photographic manufacturers industry would have wanted. I had to testify against them during my entire term in office. I just figure that we should be competitive with world markets. We should not have a 40 percent, as we had, import tariff. The American consumer's interest should be readily served by becoming highly competitive worldwide. We grew because we stayed competitive. We moved with the business. We never asked for tariff protection at all. We asked that it be reduced, and it was reduced from 40 to 35 percent. Polaroid and Bell and Howell continued to grow. I didn't want to be protected in those markets. If we, for instance, did that on oil, we would't bring a barrel of oil into this country. We wouldn't have automobiles out on the road. We wouldn't have enough domestic production to do that. We couldn't put prices on imports, arbitrarily, artificially, at our production cost, because world conditions and market conditions govern pricing.

I will pass your suggestions on, but I just respectfully say, that I think it would be contrary to our interests because, if we did, what's good for the goose is good for the gander, and other countries will do it. You cannot ship your soybeans, wheat, you cannot ship any of your products unless the cost of your import is equal to, plus transportation costs, our production costs. We are the most efficient agricultural producer in the world. We can grow rice cheapter in this country—in California—than they can in China. We can raise chickens, process them and ship then, cheaper than than they can produce them in a farmyard of Germany, the country of my heritage. We would really lose in agriculture, in my judgment, if that was imposed as a policy by other countries. We cannot have a policy that we can't expect others to have. I think farmers of the world would love to have that kind of policy, that they would then prohibit our exports, and one out of two Illinois workers on the farm would be adversely affected. It's protective, it's interesting, and I would certainly pass it on. That one respect, I simply could not agree, and I have not ever agreed a 100 percent. I feel that that would create the kind of surpluses that would depress market conditions and market pricing for the years to come. But, we will go right now to our questions. I would like to just ask a couple of questions.

Mr. Harold Steele, I do agree with your statement supporting value added exports. A question has come up. Should we require nations wishing to purchase our commodities, like the Europeans, to buy processed value added agricultural products as a precondition before we allow them to purchase large amounts of our raw commodities? Is that a practical thing?

Mr. STEELE. I think it's not practical. I think it's preconditioned. It violates the principles of the free market that the Farm Bureau does feel very strongly about. I would, Senator Percy, would rather look to Japan, as an example, where they closed doors to commodities. We value them very much as a single nation for their, No. 1, importing of agricultural commodities which are raw products, And I commend them for their expertise in out negotiating us. I think we need to sharpen up this area very much in negotiating with them on fairness. We do have a great inbalance, total trade between our two countries, and we need to improve.

Senator PERCY. I would like to put to Mr. Milligan and Harold Dodd and you, Harold Steele, the same question I put before.

Are farmers that you represent really cognizant of how important export markets are to their present income and their future income and their future growth potential and their ability to keep that family farm in the family, and are they supportive of efforts that we are making to really expand agricultural exports and also pressing the Department of Agriculture to do what farmers can individually do, in every respect, to broaden the market, to expand the usage of agricultural products, so we can consume more and more through a broader and wider use of agricultural products and reach foreign markets and, not restricting them to the domestic market of 230 million? A very brief comment, and you can supplement anyway you want in the record.

Mr. DODD. My response, Senator, would simply be that, yes, we are very interested in increasing exports, very interested in finding new uses. We are very interested in anything that would increase the price in the marketplace. We are not so greatly interested in just finding new exports, unless you attach some kind of pricing structure, because you can export yourself into bankruptcy, you know, if you keep selling it at below the farmers' cost of production. So we think that what we negotiate with some of our foreign coworkers, that maybe we ought to be including in it some sort of pricing structure. Thank you.

Senator PERCY. Mr. Milligan.

Mr. MILLIGAN. The people that I represent are very cognizant of the importance of exports, but not at the price that we have had to sell them. We think that price is far more important than volume. And if we continue to sell our production for less than the cost to produce it, we will very, very rapidly be out of business. And that's what's been going on for the last several years, and our production costs have continued to increase daily, almost hourly. And our price, due to the large volume, continues to go down. When the prediction came out that we would have an 8 million bushel corn crop, down went the price, and our profit, if there were any, diminished.

Senator PERCY. I am very honored at this time to recognize Joan Severns, our friend, mayor of Champaign, who I believe has just arrived. There she is, Joan. Thank you very much. Let's stand up and let her have a round of applause. And if I could ask a former valued staff member of mine, Linda Asay of CPC, North America to stand. And John Leymann, coordinator for the Illinois Department of Agriculture in charge of alcohol fuels. John, thank you very much.

In closing, I want to thank all of you for your thoughtfulness in being at these hearings. And, as I have said, a complete record of the transcript will be printed and will be available to any of you that ask for it.

I want to thank particularly Sam Baker, assistant vice president for Government relations, Connie Arseneau, Scott Hendrick, Fred Mohn, and Sandy Roberts, and my own Senate staff, Howard

Marks, Lynn Lerish, Bill Strauss, Kathy Froelich, Elaina Newport, John Caldwell. John, are you in the room? Fine, John, right there. Head of my Springfield office, and who has about 29 counties that he works on on my behalf. Gary Rowe, Gary of the Chicago office. I thank them all for their outstanding assistance in preparing for this hearing.

It's been an extraordinarily valuable hearing for me, and I know that Senator Dixon and the members of this Governmental Affairs Committee, will study very carefully the hearing record. We have learned a great deal. We have learned particularly that we can never take for granted our export markets in Europe or anyplace else, for that matter. We have got to work hard to keep those markets and expand them. I have decided, based on what I have heard today, and the testimony I read before I came into the hearing, to implement a plan of action that would include advising both Senators Helms and Boschwitz of the Senate Agricultural Committee, the results of this hearing. Their own staff member will report to them, and follow through with action of their own. We are working in very close tandem, and I know Alan Dixon, a member of that committee, will cooperate fully. I will also be contacting the U.S. Ambassador to the GATT, in order to elicit his support for our position. I have that program underway. I will be working with Secretary Haig on that, and Secretary Block, relating to the European Community the concerns of my constituents and exploring steps we both can take to lessen the anxiety over trade protectionism. Certainly, with the labor and industry, cooperative effort it will be easier to develop an educational and legislative program. I will be watching this issue with great interest, to be certain that the interests of Illinois agriculture and American agriculture are fully protected.

I have enjoyed this hearing immensely. I have learned a great deal from it. I thank every participant and everyone who has honored us with your presence today.

The hearing is adjourned.

[Whereupon the hearing was adjourned at 11:30 a.m. subject to the call of the Chair.]

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THE IMPORTANCE OF U.S. CORN GLUTEN FEED EXPORTS

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October 7, 1981

THE IMPORTANCE OF U.S. CORN GLUTEN FEED EXPORTS

INTRODUCTION

Production of the corn wet-milling byproduct corn gluten feed (CGF) has increased in recent years as the rising demand for corn sweeteners and other corn products has been met through growth in the U.S. corn-refining industry. During the 1970s, when this occurred, the feed compounding industry of the European Community (EC) emerged as a market for CGF, purchasing almost all that was exported from the United States. In 1970/71, 30 percent of U.S. CGF was exported; by 1979/80, 84 percent was shipped abroad.

Recently, in response to indications that the EC is considering changing the current duty-free status of CGF imports, U.S. interests have voiced concern about the adverse impacts of such action. If its duty-free status were lost, CGF would lose its economic attractiveness in the EC marketplace and exports would decrease. The purpose of this paper is to provide background information on this issue and a discussion of the short-term effects that such a change in EC policy could have on the U.S. agricultural economy.

PRODUCTION OF U.S. CORN GLUTEN FEED

In 1979/80, 3.2 million short tons of CGF were produced as a byproduct of wet-milling through which corn is processed to make numerous primary and secondary products. In the wet-milling process, the corn kernel is separated into starch, solubles, germ, gluten, and hulls. The starch is further processed into syrups, dextrose, and various starches, which are used in such products as cornstarch and corn syrup, including high-fructose corn syrup (HFCS). The solubles result in steepwater, the germ in corn oil and oil meal, and the gluten and hulls in gluten feed and meal. These products have hundreds of uses.

One 56-pound bushel of corn yields 31.5 pounds of starch, 3.5 pounds of corn germ, 9.2 pounds of CGF (21 percent protein) dry substance basis, and 2.7 pounds of corn gluten meal (60 percent protein). 1/ CGF is used as a protein and energy source in animal feed. The Corn Refiners Association, Inc., provides the following description of CGF:

> Corn gluten feed is a medium protein, medium energy ingredient, composed of the bran and fibrous portions of the corn kernel in combination with the starch and protein fractions not recovered in the primary separation process. It may or may not contain added fermented corn extractives or corn gluten meal. Corn gluten feed is widely used in complete feeds or concentrates for dairy and beef cattle, poultry (layers and turkey breeders), swine, and as a carrier for added micronutrients. 2/

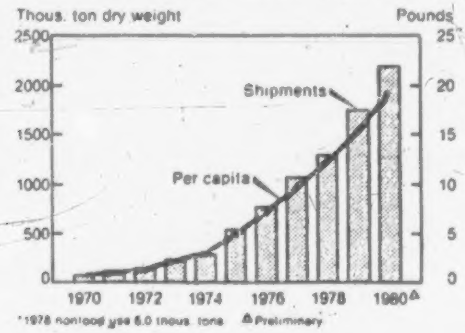
The Corn Refiners Association supplies the following description of the actual process. After shelled corn is steeped in warm water, it is milled in a water slurry. The germ is then separated through centrifugal action from the starch, gluten, and hulls. The germ is washed to recover more starch and then dried. Oil is removed from the germ through an expeller process and solvent extraction, and the remainder of the germ is dried to produce corn germ meal. Starch and gluten are separated from the fiber and hulls by fine milling. CGF is produced by combining starch granules and protein particles with fiber, de-oiled germ, and steepwater, and then dried. Further processing produces corn gluten meal.

1/ Chase Econometrics. "Economic Outlook for Corn Distillers and Grain Byproduct Prices, 1981 through 1990," Jan. 23, 1981, p. 1.

2/ Corn Refiners Association, Inc. "Corn Wet-Milled Feed Products." Washington, D.C. 1975.

For the 1981/82 crop year, the U.S. Department of Agriculture (USDA) anticipates that 6.5 percent of the corn crop, 500 million bushels, will be used in the wet-milling process. In 1980/81, 465 million bushels were so used. Much of the increase in corn wet-milling during the 1970s resulted from the commercial development of HFCS early in the decade and its rapid substitution for sugar in the sugar-containing product market. USDA estimates that U.S. per capita consumption of caloric sweeteners in 1980 was 128 pounds. Of this, 34 percent or 42.4 pounds was from corn sweetener and minor-caloric sources, and the remaining 66 percent was from sugar. Figure 1 graphically displays the rapid increase in HFCS consumption over the past decade.

FIGURE 1.- HFCS: U.S. Shipments and Per Capita Consumption*



Source: USDA. Sugar and Sweetener Outlook and Situation. Sept. 1981.

USDA projects that per capita corn sweetener consumption will increase to 54.4 pounds per person by 1985, of which 31.8 pounds per person will be HFCS, while sugar consumption will fall to 72.9 pounds per person. In response to the increased demand for corn sweeteners alone, CGF production will rise by 0.6 million tons between now and 1985. In 1981, corn sweetener production created 2.1

million tons of CGF byproduct; in 1985, this figure will reach 2.7 million tons, according to these projections. While the corn grind expanded rapidly during the 1970s, USDA anticipates that, given technological limitations, HFCS will have penetrated the sugar-containing-product market as much as it can by 1987. Growth after that will slow, reflecting only population increases.

Table 1 provides information on U.S. production and exports of corn gluten feed and meal. Data for CGF alone are not available but CGF accounts for approximately 83 percent of the combined total.

TABLE 1. U.S. Production and Exports of Corn Gluten Feed and Meal

Crop Year	Production	Exports
	(1,000 short tons)	
1960	1,098	172
1965	1,481	346
1970	1,761	524
1975	2,554	1,077
1976	2,697	1,659
1977	3,021	1,798
1978	3,226	2,032
1979	3,218	2,713
1980	2,672*	2,748**

* First 10 months of the year only.

** First 11 months of the year only.

Source: Janet Livesey, ERS, USDA.

THE CORN-REFINING INDUSTRY

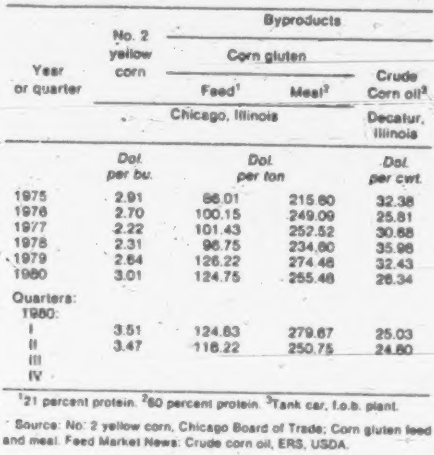
Today there are 14 corn-refining corporations operating 25 plants mostly located in the mid-western States of Illinois, Iowa, and Indiana, but also in Alabama, California, Colorado, Missouri, New York, North Carolina, Ohio, Pennsylvania, Tennessee, and Texas. Between 12,000 and 15,000 people are directly employed by this industry.

The revenue that corn-refining companies receive from selling CGF and other byproducts contributes significantly to paying for the basic input—corn. While corn-refining companies are in business to produce primary corn products, the fact that the byproducts have a value allows some flexibility in the pricing of the end products. For example, HFCS is marketed at a price somewhat lower than the fluctuating price of sugar. In 1980, according to the Corn Refiners Association, Inc., the value of CGF, corn gluten meal, and corn oil was equivalent to about 50 percent of the cost of corn. CGF alone accounted for 26 percent. Between 1970 and 1980, the value of these three byproducts compared to the price of corn has ranged between 45 and 64 percent; for the second quarter of 1981, the value was down to 41 percent of the cost of the corn. During the same decade, the percent recovered from CGF has varied between 18 and 30 percent; for the second quarter of 1981, the value of CGF was equal to 21 percent of the cost of corn. Table 2 provides information on the prices of corn and byproducts.

DEMAND FOR CORN GLUTEN FEED

CGF is a protein and energy ingredient that is used in animal feed mixtures. Various formulas are used to provide appropriate mixes of numerous feed ingredients for different types of livestock. In the United States, CGF can typically substitute for such other ingredients as wheat bran, hominy, and brewers' dried grains, depending on local availability and price competitiveness. Usually, CGF is purchased for its value as a protein supplement, rather than a source of energy, since cheaper commodities, such as corn, are available for this purpose.

TABLE 2. Selected Price Comparisons: Corn and Corn Refinery Byproducts



Year or quarter	No. 2 yellow corn	Byproducts: Corn gluten: Feed[1]	Byproducts: Corn gluten: Meal[2]	Byproducts: Crude Corn oil[3]
	Chicago, Illinois	Chicago, Illinois	Chicago, Illinois	Decatur, Illinois
	Dol. per bu.	*Dol. per ton*	*Dol. per ton*	*Dol. per cwt.*
1975	2.91	86.01	215.60	32.38
1976	2.70	100.15	249.09	25.81
1977	2.22	101.43	252.52	30.68
1978	2.31	96.75	234.60	35.98
1979	2.64	126.22	274.46	32.43
1980	3.01	124.75	255.48	26.34
Quarters:				
1980:				
I	3.51	124.63	279.67	25.03
II	3.47	116.22	250.75	24.60
III				
IV				

[1] 21 percent protein. [2] 60 percent protein. [3] Tank car, f.o.b. plant.

Source: No. 2 yellow corn, Chicago Board of Trade; Corn gluten feed and meal, Feed Market News; Crude corn oil, ERS, USDA.

Source: USDA. Sugar and Sweetener Outlook and Situation. Sept. 1981.

The relative values of the total digestable nutrients, including protein, in various feeds are expressed in a feed equivalency ratio (FER). The feed equivalency ratio for CGF and corn is 1.15. In other words, the higher nutrient content of CGF makes it 1.15 times as valuable as corn. Therefore, it is worthwhile to pay up to 1.15 times as much for CGF as for corn. The FER for soybean meal and CGF is 1.43, and the FER for soybean meal and corn is 1.65. These ratios may then be used to indicate at what price it is more economical to use a certain feed, in terms of meeting the animal's nutrient requirements. For example, to examine the price value of CGF and corn, one can compare the ratio of their prices with their feed equivalency ratio, which is the point at which the two feeds have an equal nutritive value. If the price of CGF divided by the price of corn is less than 1.15, it is more economical to use CGF than corn; as long as the price ratio is more than 1.15, it is more economical to use corn.

Table 3 provides historical information on the price ratios in both the United States and the European Community for soybean meal and corn, CGF and corn, and soybean meal and CGF, which can be compared with the FERs. These data explain the popularity of CGF as a grain substitute in the European Community where the price of CGF has been about 60 percent of the price of imported corn in recent years. The price of imported corn is just slightly more than the price of corn produced in the European Community. Although CGF is also price-competitive with corn in the United States, many farmers prefer to use corn because of its local availability and convience.

TABLE 3. U.S. and EC* Price and Feed Equivalency Ratios (FER)

Year	CGF/corn		Soybean Meal/CGF		Soybean Meal/Corn	
	U.S.	EC	U.S.	EC	U.S.	EC
	(FER = 1.15)		(FER = 1.43)		(FER = 1.65)	
1970	0.91	n.a.	1.51	n.a.	1.38	1.05
1971	0.95	n.a.	1.44	n.a.	1.36	1.03
1972	0.93	0.61	2.06	1.91	1.91	1.17
1973	0.85	0.79	3.16	2.86	2.67	2.25
1974	0.75	0.75	1.74	1.61	1.30	1.20
1975	0.80	0.67	1.34	1.40	1.07	0.94
1976	0.90	0.73	1.61	1.55	1.44	1.13
1977	1.20	0.51	1.65	1.72	2.00	0.88
1978	0.96	0.57	1.72	1.58	1.66	0.90
1979	1.13	0.63	1.11	1.49	1.25	0.94
1980	1.07	0.61	1.45	1.52	1.55	0.93

* C.I.F. Rotterdam.

Note: U.S. corn prices were based on U.S. #2 yellow corn, F.O.B. Gulf ports; EC corn prices were based on U.S. #3 yellow corn C.I.F. Rotterdam plus the import levy. U.S. soybean prices are for 44 percent protein at Decatur; EC soybean meal prices are for 44 percent protein, C.I.F. Rotterdam. U.S. CGF prices are for 21 percent protein; EC CGF prices are for 21 percent protein and are unit prices.

Source: Steven Sposato, ERS, USDA.

The large demand for CGF from the feed compounding industry in the European Community results from the Common Agricultural Policy (CAP) through which indigenous production of some commodities is encouraged and their importation is discouraged through the imposition of a variable levy. Because of this alone, U.S. corn sold in the European Community costs about 50 percent more than in the United States. Some other feedstuffs, such as soybean meal and CGF, are not subject to any import tariff and therefore may be a more economical source of energy in feed. The following table provides a price comparison of various feeds in both the United States and the Netherlands.

TABLE 4. Feed Prices in the United States and the Netherlands

	U.S.			Netherlands 1/		
Year	Soybean Meal 2/	Corn 3/	CGF 4/	Soybean Meal 2/	Corn 5/	CGF 6/
	(Dollars per Metric Ton)					
1970	80	58	53	102.50	97.92	n.a.
1971	79	58	55	101.67	98.78	n.a.
1972	107	56	52	129.25	110.44	67.60
1973	262	98	83	306.50	136.33	107.28
1974	172	132	99	183.92	153.20	114.17
1975	130	122	97	155.00	165.54	111.03
1976	166	115	103	198.33	174.89	127.86
1977	195	98	118	229.83	261.52	133.39
1978	174	105	101	213.33	236.31	135.26
1979	147	118	133	243.00	257.71	163.15
1980	200	129	138	256.67	275.85*	169.04

1/ C.I.F. Rotterdam
2/ 44 percent protein
3/ U.S. #2 yellow corn, F.O.B. Gulf ports
4/ 21 percent protein
5/ U.S. #3 yellow corn (effective import price is the C.I.F. Rotterdam price plus the import levy)
6/ unit price (total value divided by total quantity), not market price
* Jan. - Oct. import levy

Source: Steven Sposato, ERS, USDA.

EC BENEFITS AND COSTS OF DUTY-FREE CORN GLUTEN FEED

During the Kennedy round (1963-67) of multilateral trade negotiations, the European Community agreed to allow the import of corn gluten feed, 40 percent protein or less, to be duty-free. As a result, CGF is price-competitive with other feed grains as an energy supply source in animal feed and is not used just as a protein source as it is in the United States. The percent of some feed grains used in feed mixes has decreased while that of non-grain feed ingredients has grown in the European Community and in the Netherlands in particular. Table 5 provides data on the change in EC use of various feedstuffs between 1970/71 and 1980/81. While the European Community imports corn, it produces adequate amounts of soft wheat and barley which are used as feed. EC grain producers object to the increasing role that non-grain feed ingredients have in supplying energy and would prefer them to remain in their traditional role as protein sources.

The use of cheaper feed ingredient imports such as CGF allows EC consumers to benefit from less expensive meat and poultry prices. While it is difficult to quantify the consumer benefit of duty-free imports of CGF, it is possible to calculate a crude estimate. If it is assumed that a tariff placed on CGF imports resulted in their replacement with indigenously produced soft wheat, barley, or corn, the increased cost of feed could be estimated simply as the difference between the price per ton of each of these commodities. In 1980, the C.I.F. Rotterdam price per ton of CGF was $169.04. The EC intervention price (the lowest that the internal price would be) for the 1980/81 marketing year was $202.64 per metric ton of soft wheat and $202.54 per metric ton of barley. Corn prices were $246.35 per metric ton. (This is the threshold price which approximates the wholesale price. The difference between this and the world price is the amount of the variable levy.)

TABLE 5. EC Total Usage of Selected Feeds
(in million metric tons)

	80/81F	79/80p	78/79	77/78	76/77	75/76	74/75	73/74	72/73	71/72	70/71
Wheat	12.8	12.3*	11.9	10.7	9.8	9.5	12.3	11.7	14.2	12.0	12.2
Barley	28.7	27.4*	27.0	26.0	24.5	24.1	24.6	25.9	24.1	23.2	22.9
Maize	21.5	21.8*	21.5	21.0	22.6	21.4	20.9	22.0	20.1	19.5	18.4
Oth. grains...	10.0	10.0*	10.2	9.9	10.2	12.8	12.4	12.7	12.8	13.0	13.1
Grains, total ..	73.0	71.5*	70.6	67.6	67.1	67.8	70.2	72.3	71.2	67.7	66.6
Pulses.......	0.7	0.6*	0.6*	0.5	0.5	0.6	0.6	0.5	0.8	0.8	0.8
Potatoes	5.2	5.5*	7.0*	7.7	4.7	5.7	8.6	8.2	8.5	11.3	12.9
Tapioca	5.0	4.2	6.4	4.3	3.6	2.4	2.4	1.8	1.7	1.6	1.4
Grain by-products	9.0	9.4*	8.9*	8.5	9.1	8.4	7.9	8.3	8.3	8.6	8.7
Soybean meal.	14.4	15.1	14.1	12.5	10.7	10.4	9.6	8.5	8.0	7.3	7.1
Cotton meal...	0.8	0.7	0.8	0.6	0.6	0.8	0.6	0.8	1.0	0.7	0.9
Groundnut meal	1.0	1.0	0.9	0.8	1.3	1.0	0.6	0.8	1.1	0.9	0.9
Sunflower meal.	1.5	1.3	1.1	0.7	0.5	0.4	0.4	0.4	0.5	0.5	0.6
Rapeseed meal .	1.4	1.2	1.1	0.8	0.9	0.7	0.6	0.8	0.8	1.0	0.7
Copra meal ...	1.0	0.9	0.9	0.9	1.0	1.1	0.7	0.7	1.0	0.9	0.7
Palmkernel meal	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.4	0.3
Linseed meal ..	0.6	0.7	0.7	0.7	0.6	0.5	0.4	0.5	0.6	0.8	0.8
Corn meal....	1.3	1.2*	1.1*	1.0	0.8	0.6	0.5	0.4	0.3	0.3	0.3
Gluten feed (b).	3.3	2.7*	2.2	1.9	1.5	1.2	1.0	0.8	0.8	0.7	0.6
Fish meal	0.7	0.8	0.8	0.8	0,9	1.0	0.9	0.7	1.0	1.5	1.4
Skim-milk powder	1.9	2.1	2.3	2.0	2.2	1.6	1.0(a)	1.1(a)	1.2(a)	1.1(a)	1.0(a)
Oilmeals, total	28.4	28.2	26,4	23.1	21.5	19.7	16.7	15.8	16.6	16.1	15.3
Grand total ..	121.3	119.4	119.9	111.7	106.5	104.6	106.4	106.9	107.1	106.1	105.7
grains, % ..	60.2	59.9	58.9	60.5	63.0	64.8	66.0	67.6	66.5	63.8	63.0
Oilmeals, %	23.4	23.6	22.0	20.7	20.2	18.8	15.7	14.8	15.5	15.2	14.5
Other, % ..	16.4	16.5	19.1	18.8	16.8	16.3	18.3	17.6	18.0	21.0	22.5
Per Livestock unit, in MT (c)											
Total	1.50	1.49	1.51	1.43	1.37	1.36					
Grains	0.90	0.90	0.89	0.86	0.87	0.88					
Oilmeals...	0.35	0.35	0.33	0.30	0.28	0.26					
Other feeds.	0.25	0.24	0.29	0.27	0.22	0.22					

(a) Oct/Sept. (b) Up to 40% raw protein, mostly 23-24%. (c) Based on the livestock units available at the beginning of the second of the split years.

Source: Oil World, October 3, 1980.

EC feed grain producers dislike the market penetration of non-grain feed ingredients, especially at a time when EC members are complaining about the cost of the CAP. EC producers of barley and soft wheat are also concerned by the potential increase in CGF availability that they anticipate will result as the United States expands its wet-milling capacity to meet the growing demand for corn sweeteners and ethanol used in gasohol.

U.S. gasohol consumption currently accounts for slighlty more than 1 percent of the gasoline market. Over the past year, expectations that gasohol might quickly gain a larger market share have been dampened. The U.S. Department of Energy (DOE) is aware of only one wet-milling operation out of 14 plants which are planning to expand ethanol production. Based on this, DOE anticipates that an additional 400,000 tons of CGF will be produced over the next few years. Another source expects that at least four wet-millers will expand or begin ethanol production by 1983, increasing capacity to about 450 million gallons of ethanol. 3/ The Chase Econometrics study previously cited makes a baseline projection of CGF output as a byproduct of ethanol production rising from 111,500 tons in 1980/81, to 539,600 tons in 1984/85, and 1,380,000 tons in 1989/90. The A.E. Staley Manufacturing Company, a wet-miller, makes the following estimate of ethanol and associated CGF production:

Year	Ethanol production (million gallons)	CGF production (thousand metric tons)
1980	80	185
1981	120	279
1982	255	591
1983	280	650
1984	310	720
1985	350	813

EC OPTIONS

In response to the complaints of domestic feed producers, the European Community may consider a number of different actions. One ontion would be to impose a

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3/ Drexel Burnham Lambert Inc. "Ethanol Outlook," May 13, 1981.

duty on CGF imports to remove their price-competitiveness with grain. If this were done, the United States would probably protest the action, and the EC might be required to make compensation. This would be of little help to CGF producers since the compensation would probably take the form of a concession on another commodity.

In order to reduce surplus feed supplies, the European Community subsidizes the export of commodities by paying the difference between the internal support price and the lower world market price. When supplies are large or world prices low, such subsidies become more expensive and subject to criticism. Under certain circumstances, a less expensive alternative would be for the European Community to encourage the internal use of such feed grains by subsidizing their sale to feed compounders so that they would be price competitive with non-grain feed ingredients.

Another way to reduce CAP costs would be to decrease the support given to EC feed producers and encourage their switching to the production of other commodities.

THE DOMESTIC IMPACT OF HALTING U.S. EXPORTS OF CORN GLUTEN FEED

If the European Community acted to reduce or eliminate price-competitiveness and therefore the attractiveness of U.S. exports of CGF, what impact would this have on U.S. producers? For the purpose of this discussion, it is assumed that the EC imports all the U.S. exports of this product. The short-term effect would be that the U.S. supply of CGF would be increased by the amount that would have been exported. Over the long term, other export markets might be developed for the product.

The Chase Econometrics agricutural model was used to estimate the impact on the U.S. agricultural economy of increasing the U.S. supply of CGF. 4/ While such an analysis cannot estimate the impact of this change on the corn-refining industry, certain projections can be made as to the impact on the feed grain, oilseed, and livestock sectors, as well as on farm income. It was assumed that without EC intervention, CGF exports would increase following the trend of recent years to 2.456 million tons in crop year 1980, 2.603 million tons in crop year 1981, and 2.801 million tons in crop year 1982. It was assumed that each ton of CGF would displace 2/3 of a ton of corn and 1/3 of a ton of soybean meal. While the model does not include data on competitive feed ingredients such as hominy, wheat bran, and brewers' dried grain, it does allow for an impact to be calculated on the corn, wheat, and barley sectors from which these products are derived.

The model was simulated to provide information on the difference between exporting CGF at trend estimates and halting all CGF exports as of the first quarter of 1982. While the U.S. livestock sector was not made better or worse and there was no impact on soybean prices or overall consumer prices, the following would result from termination of exports:

- Net farm income would be reduced by $100 million in 1982 and by $300 million in 1983;
- Government deficiency payments for barley would be increased in 1983 from an anticipated $5.5 million to $9.6 million;
- The price of corn at the farm gate would be lowered by 3 cents per bushel in the fourth quarter of 1982, and by 5 cents per bushel by the third quarter of 1983 (see Figure 2 for graphic display);
- The price of oats would be decreased by 1 cent per bushel by the fourth quarter of 1982 and by 2 cents per bushel by the third quarter of 1983; and

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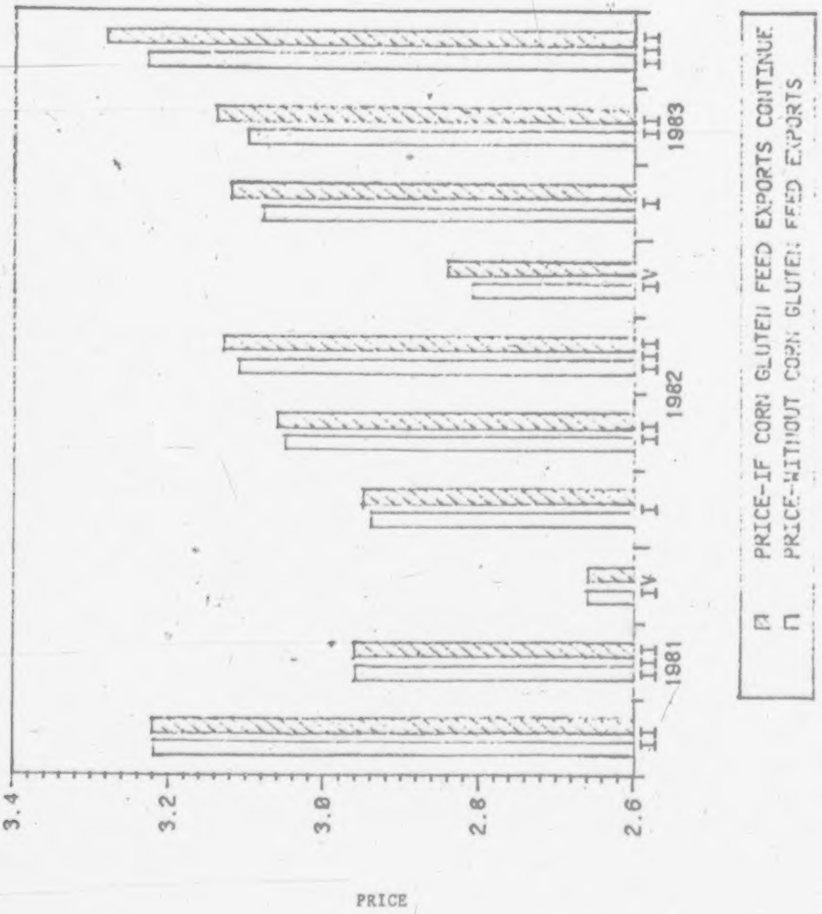
4/ This analysis was prepared by A. Barry Carr, Specialist in Agricultural Policy, and Karla Perri, Analyst in Agricultural Policy, ENR, Congressional Research Service.

FIGURE 2. Farm Price of Corp Projected: 1981-1983



Source: Chase Econometrics.

- The farm price of sorghum would be decreased by 3 cents per bushel by the fourth quarter of 1982, and by 4 cents per bushel by the third quarter of 1983.

Thus, the greatest impact would be on the crop prices and farm income received by grain producers.

Although the model's projections are national averages, most of the impact of halting CGF exports would be felt in the areas where the byproduct is produced. Therefore, the anticipated effects would probably occur most severely in the regions where the wet-milling operations are located.

CONCLUSION

Due to the nature of the EC tariff structure, the feed compounding industry in the European Community has found U.S. CGF to be an economical feed ingredient. This has put upward pressure on the price of CGF and diverted most of it to the export market. In 1980, exports of U.S. CGF contributed $428 million to the balance of payments, up from $98 million in 1975. If the European Community acted to reduce or remove the price advantage of CGF, not only would this revenue be lost, but U.S. net farm income and some commodity prices would be depressed. The strongest impact of this would be felt in areas where corn is produced and wet-milling operations are located. Furthermore, if the European Community imposed a duty on CGF, it would probably have to take similar action on other imported feedstuffs such as soybeans, soybean meal, and other non-grain feed ingredients if it is to meet an objective of reducing CAP expenditures and increasing the use of indigenously produced feed grains. This would pose a serious problem in the trade relations between the United States and the European Community.

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U.S.-SPANISH AGRICULTURAL TRADE PROBLEMS: SOYBEANS AND SOYBEAN OIL

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INTRODUCTION

Soybeans, often referred to as America's "miracle crop", emerged in the early 1970s as the number one U.S. cash crop and have continued to hold this lead. The preeminence of soybeans as both a domestic cash crop and as a valuable export commodity, however, is challenged by production increases and export-oriented policies of other nations, as well as by trade restrictions imposed by importing countries. This report discusses soybeans' phenomenal growth and the problems the U.S. is likely to encounter in world markets. Special attention is given to the Spanish policy of domestic consumption quotas on soybean oil and the potential for increased trade problems once Spain enters the European Community (EC).

THE IMPORTANCE OF SOYBEANS IN U.S. TRADE

The soybean, an oilseed, is one of the oldest forms of nutrition in the world. It is also one of the world's most versatile protein sources. Soybean processing or "crushing" yields two discrete products—a highprotein meal and an edible oil. When processed, a 60-pound bushel of soybeans yields, on the average, 11-pounds of oil and 47 to 48 pounds of meal. Although the two products are closely linked in production, they are essentially independent from one another in use, with the demand for soybean meal derived from the demand for high-protein feed for livestock and poultry, and the demand for soybean oil largely determined by the vegetable oil requirements for margarine, shortening, cooking and salad oils, and some non-food products such as paint and resins.

The U.S. is the world's leading producer and exporter of soybeans. In 1980/81, the U.S. accounted for 60.1 percent of the world's production of soybeans and 76.2 percent of the soybeans and soybean products entering world trade. The 1970's were the real growth decade for U.S. soybeans. From 1970 to 1980, annual production rose from 1.13 billion bushels to 2.27 billion bushels; the value of annual production increased from $2.6 billion to $14 billion, generating a total of $81.7 billion to the U.S. economy; farmland devoted to soybean production increased from 42.5 million acres to 71 million acres; and the number of farmers producing soybeans rose from approximately 100,000 to 630,000.

About 55 percent of U.S. soybeans and soybean products are used domestically. The remaining 45 percent are exported, making soybeans and soybean products, not only the number one domestic cash crop, but also the single largest U.S. export commodity.

The growth in U.S. soybean exports has been described as "phenomenal". From 1970 to 1980, U.S. soybean and soybean product exports almost doubled in volume and increased fourfold in value, rising from $1.8 billion to over $8 billion, adding $51.7 billion to the U.S. trade balance during that period. For fiscal year 1980, the value of U.S. exports of soybeans and soybean products is estimated at $8.1 billion, which accounts over 18 percent of the total value of U.S. agricultural exports. The largest customers for U.S. soybeans are the Netherlands, Japan, Spain and West Germany (Table 1).

Although the U.S. remains the dominant exporter in international soybean trade, its position has progressively eroded over the past several years because of production increases and export-oriented policies of other countries, especially Brazil, Argentina and Paraguay. During the late 1960s and early 1970s, the U.S. share of world soybean exports averaged approximately 90 percent. Since 1975, the U.S. share of the world market has averaged about 80 percent. Increased world production and aggressive export promotion from competing nations present a considerable challenge to continued growth in the volume of U.S. soybean and soybean product exports.

Soybeans and soybean products face additional competition from product substitutes. In the case of soybean meal, primary competitors include fish, peanut, sunflower and cottonseed meals as well as low-protein tapioca, high-protein corn gluten meal and feedgrains. Because vegetable oils can be easily substituted for one another, soybean oil competes with a myriad of other oils including corn oil, cottonseed oil, peanut oil, safflower seed oil, sunflower seed oil, olive oil, coconut oil, palm oil, palm kernel oil, rapeseed oil and sesame seed oil.

Under free market conditions, market shares for competing vegetable oils are determined by relative prices. When soybean oil is relatively expensive, purchases of cheaper substitutable oils increase. Conversely, when the price of soybean oil is relatively low, the substitute oils become less price competitive and purchases of these products tend to decrease. Even though soybean oil faces heavy competition from other oils, because of its normal plentiful supply and competitive price it dominates world vegetable oil trade.

In addition to the ever present challenge of competing oils and livestock feeds, as well as foreign competition in world soybean trade, U.S. soybean and soybean product exports are threatened by existing and potential trade restrictions of major importing countries.

For decades, major importing and exporting countries of the world have sought to liberalize international trade through the General Agreement on Tariffs and Trade (GATT) which is a multilateral agreement providing a code of conduct for those countries which engage in international commerce. Trade liberalization is a goal that requires considerable and continuous effort.

This is especially true in times of domestic economic difficulties when the tendency is to adopt policies designed to protect domestic industries from foreign competition. Today's current economic situation is a case in point. Protectionist trends are discernible in several areas of international commerce. With regard to agriculture, many countries have proposed or adopted policies to protect their agriculture from competition with U.S. farm commodities. This issue is of considerable concern to the U.S. given the importance of agricultural exports to the economy. A policy of particular concern is the Spanish Government's imposition of domestic consumption quotas on soybean oil.

SPANISH DOMESTIC CONSUMPTION RESTRICTIONS ON SOYBEAN OIL

To support its large livestock and poultry industries, Spain produces and imports substantial amounts of soybeans and feedgrains. Although Spain has attempted to expand its production of soybeans to meet domestic consumption requirements for meal, it has been largely unsuccessful, primarily because of climatic constraints. Since 1970, Spanish soybean production has grown from approximately 1,000 tons a year to about 14,000 tons. At the same time, however, annual domestic use has increased from about 1.2 million tons to 2.8 million tons. To meet growing domestic requirements for soybean meal, Spain imports large amounts of soybeans for domestic crushing as well as small quantities of soybean meal. Spain purchases most of its soybeans from the U.S. For the five-year period, 1976 through 1980, over 70 percent of Spain's soybean imports came from the U.S. Spain also purchases some beans from Brazil and Argentina (Table 2).

During 1977 through 1981, an average of 12.7 percent of Spain's total soybean meal utilization was imported as processed meal. Less than 0.5 percent of total use was crushed from domestically produced soybeans. The remainder, nearly 87 percent of total utilization, was crushed domestically from imported soybeans. Spain imports raw soybeans for domestic crushing, as do many other countries, to support indigenous oilseed-crushing industries.

In processing large amounts of soybeans to meet increasing demand for meal to feed the growing livestock and poultry sector, Spain's oilseed-crushing industries produce substantial amounts of soybean oil that, left to market forces, would enter the domestic market to compete with one of Spain's most important and traditional crops— olive oil. Spain also wants its emerging sunflower oil industry protected from competiton with soybean oil.

To protect olive growers and processors as well as to encourage its domestic sunflower industry, the Spanish Trading Agency (CAT), in 1969, began to restrict sales of soybean oil in the domestic market. It was not until 1975/76, however, that a formal domestic marketing quota was established by royal decree. The annual marketing quota level is usually announced in late October or early November after estimates of the Spanish olive oil and sunflower oil production levels become available. Once domestic oil production levels are known and compared with anticipated consumption levels, CAT then allocates the residual domestic edible oil market to soybean oil. By restricting the domestic supply of soybean oil, thereby increasing its price relative to olive and sunflower oil, the marketing quotas protect domestic production and consumption of olive and sunflower seed oil against what, under freer market conditions, would be a cheaper alternative oil.

Quotas on domestic marketings of soybean oil have been progressively more restrictive over the past six years. The 1975/76 quota on domestic sales of soybean oil was 241,000 metric tons compared to the 1980/81 quota of 90,000 tons. While consumption of soybean oil has decreased as a result of marketing quotas, overall edible oil consumption in Spain has substantially increased over the past several years. The effect of the marketing quotas has been to reduce soybean oil consumption from 34.9 percent of total Spanish edible oil consumption in 1975/76 to 12.8 percent in 1980/81. During the same period, olive oil consumption increased from 38 percent in 1975/76 to 53.4 percent in 1980/81 and sunflower oil consumption rose from 26.9 percent of total edible oil consumption in 1975/76 to 33.7 percent in 1980/81 (Table 3).

While consumption of soybean oil has been declining substantially over the past five years, Spain has continued to import and crush for meal ever increasing amounts of soybeans. Soybean oil produced from these crushings in excess of the domestic consumption quota is exported. Spanish soybean oil exports have risen from 4,000 metric tons in 1967/68 to 480,000 in 1980/81. Spain is now the fourth largest exporter of soybean oil in the international market, following the U.S., the European Community and Brazil (Table 4).

U.S. RESPONSE TO SPAIN'S MARKETING QUOTA POLICY

For several years, the U.S. has protested as discriminatory Spain's domestic consumption quota on soybean oil. The U.S. first attempted to address the problem in a series of bilateral negotiations with Spain. The failure of these negotiations led the U.S., in 1979, to lodge a formal complaint with the GATT Council and to request that a panel review the issue.

The primary U.S. allegation was that Spain has violated Article III of the GATT agreement which provides that countries may not discriminate against imported products vis-a-vis domestically produced commodities. Representatives of the U.S. argued that the marketing quotas imposed on soybean oil without similar quotas on other oils, especially olive oil, demonstrated a clear case of discriminatory treatment. U.S. representatives also pointed out that rather than allowing soybean oil to compete with olive and sunflower oil domestically, Spain exports its excess soybean oil, produced primarily from U.S. soybeans, into the international market where it directly competes with U.S. soybean oil exports.

In November 1980, the GATT Panel made a preliminary finding that Spain's marketing quota policy does not violate GATT. The Panel stated that in order for Spain's policy to be considered discriminatory, the U.S. must demonstrate injury to its soybean industry by showing an actual decline in its exports as a result of this policy. The Panel also determined that soybean oil crushed from imported beans is a domestic product and that soybean oil is different from other vegetable oils.

Considerable concern has been expressed about the Panel's interpretation of the relevant GATT articles. Since the Panel is only advisory to the GATT Council, the U.S. has exercised its option to dispute the Panel's findings. The U.S. Trade Representative (USTR) has filed a brief with the GATT Council scheduled to be heard in November 1981. In the brief the U.S. has challenged the Panel's interpretations as contrary to the spirit and intent of the GATT, especially with regard to what the U.S. considers as an introduction of new concepts into the agreement. Paragraph I, Article III of the GATT states only that countries may not impose qualitative restrictions on imported products in order to protect domestic production. The Panel agreed that Spain's policy did indeed place qualitative restrictions on soybean oil. The Panel added, however, that in order to find Spain in violation of the GATT, the U.S. must show a decline in soybean oil exports as a result of the Spanish policy. The Panel did concede that Spain's exports of soybean oil may be prejudicing U.S. soybean oil exports and that if the U.S. could demonstrate an actual decline in exports, the Panel would be willing to rehear the case.

According to USTR, the U.S. cannot prove that increased Spanish soybean oil exports have resulted in an actual decline in U.S. soybean oil exports since Spain exports to such non-traditional U.S. markets as Morocco and Turkey (Tables 5 and 6). U.S. Department of Agriculture officials dispute this finding, arguing that although a one-to-one relationship may not be demonstrable in any given year, over the long-term market displacement as a result of Spain's moving from a non-exporter to the world's fourth largest exporter can certainly be proven.

IMPLICATIONS OF SPAIN'S QUOTA POLICY

The case to be heard in November has larger implications than simply the effect on U.S.—Spanish trade relations. According to USTR, the U.S. must "debunk the precedent set by the Panel" which in effect allows countries to discriminate against imported products. The finding enhances the protectionist tendencies of importing countries and is contradictory to the primary GATT principle of promoting liberalized trade among participating nations.

Additionally, considerable concern has been expressed concerning the potential impact of the Panel's finding in conjunction with Spain's accession into the European Community (EC). The original nine-member Community is currently expanding to include the three agricultural countries of Greece, Spain and Portugal. Greece became a full member on January 1, 1981; Portugal and Spain are expected to join early in 1984.

Agricultural trade with the EC is conducted under the Community's Common Agricultural Policy (CAP) which was initiated in 1962 to provide for an integrated system of farm support and protection to promote trading among member nations. Its major principles include common pricing, Community preference and common financing. Essentially, CAP is a complex, comprehensive system of price supports, minimum import prices, stockpiling, and export subsidies designed to keep internal farm prices high by protecting them from foreign competition.

Despite its protectionist policies, the EC is the largest single market for U.S. agricultural commodities. In fiscal year 1980, U.S. agricultural exports to the EC totaled $9.5 billion, almost one-fourth of total U.S. farm exports. Principal export commodites are soybeans, valued at $3 billion in FY80, followed by grains, $1.2 billion, and tobacco, $507 million (Table 7).

The primary U.S. agricultural commodity sold to the EC is soybeans and soybean products. Soybeans average about 28 percent of the value of total U.S. farm sales to the EC. From 1972 to 1980, U.S. soybean and soybean product sales to the EC grew from $927.2 million to approximately $3.5 billion, contributing $20.4 billion to the U.S. trade balance over this nine year period.

Despite the continued increase in U.S. agricultural exports to the EC, this growth has not come without friction. The U.S. has over the past 20 years formally and informally protested the protectionist policies of the EC as well as the CAP's use of export subsidies which give EC producers an unfair advantage in world markets. 1/

1/ One long-standing source of tension between the EC and the U.S. was the "Chicken War" which began in 1962 with the imposition of import levies on U.S. poultry exports to the EC. Until that time, the U.S. had been a major exporter to several European countries, particularly West Germany. The restrictions on poultry resulted in a substantial decrease in U.S. exports to the EC—a GATT finding determined that this policy had resulted in a $26 million decrease in U.S. poultry exports to the EC in 1962. The U.S. responded by imposing punitive levies on imports of EC brandy, automobile trucks, dextrine, and potato starch. Tensions were lessened when, in January 1980, the U.S. lifted these punitive tariffs following EC concessions on import restrictions on turkey.

Recently much attention has been focused on these areas of friction. This past summer, for example, Secretary of Agriculture Block and other U.S. officials went to Europe to discuss potential agricultural trade problems between the U.S. and the EC. The U.S. and other countries are concerned with the EC's potential policy response to increased pressures for trade restrictions brought about by enlargement.

Some observers predict that the Community will accede to increased pressure to protect Community farmers hurt by the enlargement. One protectionist policy of particular concern to the U.S. is the potential imposition of a consumption tax on all edible oils, including soybean oil. It has been suggested that this tax would help defray the anticipated sharp increase in Community budget outlays to subsidize the retail price of olive oil. This rise in subsidy costs for olive oil is expected as a result of Spain's accession to the EC. When Spain joins the EC, it will have to accept higher CAP prices for olive producers and will also have agree to abolish its domestic policies which discriminate against soybean oil. To prevent a widespread consumer switch to cheaper vegetable oils, the EC is likely to heavily subsidize the retail price of olive oil. Proceeds from the tax on edible oils would help offset the costs of such a policy.

Representatives from the U.S. have been vocal in their opposition to such a policy. Secretary Block has repeatedly stated that "since such a tax would affect the consumption of U.S. soybean oil whether imported directly or produced from imported U.S. soybeans, it would be a violation of the zero duty concessions obtained during the Dillion Round of (multilateral trade) negotiations." He has further warned that if such a policy were instituted, the U.S. would have no alternative but to retaliate.

Given the EC's anticipated surplus of olive oil as a result of enlargement, in conjunction with the GATT Panel's preliminary finding on Spain's marketing quotas on soybean oil, some observers have expressed the fear that some modified form of the harsh discriminatory policy toward soybean oil currently practiced by Spain may be adopted EC-wide. Rather than reinforce its protectionist tendencies, others contend that the Community may respond to the pressures of enlargement by undertaking a long-awaited reform of the CAP.

Since its inception, CAP has had to contend with large surpluses and high budgetary costs resulting from its high price support and protectionist policies. There have been continual calls for reform and various proposals have been made to reduce the costs of the CAP. Efforts at reform have intensified in the face of the EC's expansion to include Greece, Spain and Portugal. Enlargement will mean higher CAP expenditures as these countries will significantly increase supplies of many agricultural commodities, especially fruits and vegetables, wine, tobacco and olive oil.

In June 1981, the EC Commission, in its "Reflections on the Common Agricultural Policy", proposed several reforms to CAP, including reduced price supports and "co-responsibility" measures designed to discourage excess production. The policy of "co-responsibility" calls for producers to share the financial burden of curbing surplus production by either limiting production or accepting lower prices for overproduction. With regard to olive oil, the Commision recommended the policy of "co-responsibility" for several reasons, the most important of which is the anticipated effect of enlargement on this sector. The accession of Greece to the EC has appreciably altered the balance of the olive oil market in the EC, moving the Community from a market with a structural deficit to one that, in good years, could show a surplus. The accession of Spain and Portugal will make olive oil a perpetual surplus commodity.

Recent actions taken by the EC's Council of Agricultural Ministers do not support the proposition that the Community's response to enlargement will be internal reform. Despite the EC Commission's call for reform, the Council of Agricultural Ministers in April 1980 agreed to raise price supports by an average of 9.5 percent in terms of European Currency Units (ECU's). The increase is the highest since the mid-1970s. With regard to olive oil, the Council approved a 9 percent rise in the intervention price, thus increasing already heavy producer dependence on price supports. The Council also completely rejected the principle of co-responsibility for olive oil.

CONCLUSION

The 1970s were a period of significant growth for U.S. soybeans, both in production and export levels. Production more than doubled and exports increased fourfold in value. Although such growth rates are unlikely to be maintained in the 1980s, the outlook for U.S. soybeans in this decade is bright. Production remains at high levels and is expected to grow through increases in yields. In 1981/82, U.S. soybean production is projected at over 2 billion bushels, according to USDA.

World demand for U.S. soybeans and soybean products is also expected to remain strong as countries and regions such as the Soviet Union, Eastern Europe and the Middle East continue to expand their livestock sectors. This demand for U.S. soybeans, however, may be tempered by slower growth trends in traditional markets such as Japan and the EC. Moreover, U.S. soybeans and soybean products are likely to face increased competition in the international market, not only from countries which export soybeans and soybean products, but also from those countries exporting competing products. Additionally, U.S. exports of soybeans and soybean products are likely to face considerable challenges from the increasingly restrictive trade policies of certain importing countries. Given the increased protectionist tendencies of some importing countries and regions, the U.S. will have to continue and perhaps strengthen its efforts to maintain and expand its markets for soybean and soybean products in the 1980s.

Soybean oil, troubled by frequent surpluses during the 1970s, continues to face increased competition from substitute vegetable oils in a limited world market. A large number of soybean-processing and meal-importing countries have sufficient or excessive edible oil supplies. In 1980/81, the U.S. soybean oil situation was characterized by burdensome supplies and low prices. Although the domestic crush level was down from the previous year, soybean oil production exceeded domestic use and exports. As a result, carryover stocks climbed to almost 2.2 billion pounds. The outlook is similar for 1981/82. Even though domestic use and exports are forecast to increase, production is expected to exceed total use, causing a further build-up in stocks and placing continued downward pressure on prices.

Although the primary factor affecting U.S. exports of soybean oil is the availability of competitive vegetable oils in the international market, domestic policies of importing countries, such as Spain's domestic marketing quota on soybean oil and the EC's proposed tax on oils and fats, can have a considerable negative impact on U.S. soybean oil exports. Of particular significance with regard to Spain's marketing quota policy is the GATT Panel's finding on the subject, which, according the USTR, sets a precedent allowing countries to discriminate against imported products to protect domestic agriculture. As the world's largest exporter of agricultural commodities, U.S. considers that it has a vital economic concern in overturning this decision.

TABLE 1

U.S. SOYBEAN EXPORTS BY LEADING COUNTRY OF DESTINATION, CALENDAR YEARS 1976-1980

COUNTRY	1976	1977	1978	1979	1980 1/	Five-year Average 1976-1980
	1,000 metric tons					
European Community	7,196	7,508	9,216	8,313	9,634	8,373
Netherlands	3,434	3,390	4,484	4,235	5,392	4,187
Federal Rep. of Germany	1,383	1,506	1,556	1,263	1,451	1,432
Italy	895	796	906	887	838	864
Japan	3,069	3,410	3,855	3,707	4,033	3,615
Spain	1,221	1,206	1,640	1,774	1,721	1,512
Taiwan	695	671	1,070	1,101	936	895
Soviet Union	571	565	744	1,817	173	774
Mexico	230	413	700	408	931	536
Others	2,350	2,422	3,480	3,770	4,351	3,275
Total	15,332	16,195	20,705	20,890	21,779	18,980

1/ Preliminary.

Source: USDA, FAS, "Foreign Agriculture Circular: Grains," June 1981.

TABLE 2

SPAIN'S SOYBEAN IMPORTS BY COUNTRY OF ORIGIN, CALENDAR YEARS 1976-1980

COUNTRY	1976	1977	1978	1979	1980
	-------------	-------------	1,000 metric tons	-------------	-------------
United States	1,329	1,179	1,652	1,730	2,130
Brazil	567	544	167	101	688
Argentina	—	—	253	369	327
Paraguay	39	85	48	22	64
Canada	—	9	—	15	4
Others	—	19	24	—	—
Total*	1,935	1,835	2,143	2,237	3,214

*Totals may not add due to rounding.

Source: USDA, FAS, September 15, 1981.

TABLE 3

SPANISH CONSUMPTION OF EDIBLE VEGETABLE OIL: SOYBEAN OIL, OLIVE OIL AND SUNFLOWER OIL
MARKETING YEARS 1967/68-1980/81

	Edible Oil Consumption 1/				Percent of Total			
	Soybean Oil	Olive Oil	Sunflower Oil	Total	Soybean Oil	Olive Oil	Sunflower Oil	Soybean Oil Exports 2/
	1,000 MT				(%)			1,000 MT
1980/81 3/	90	375	237	702	12.8	53.4	33.7	440
1979/80	90	367	234	691	13.0	53.1	33.8	369
1978/79	105	342	250	697	15.0	49.1	35.8	313
1977/78	104	312	204	620	16.7	50.3	32.9	273
1976/77	171	285	165	621	27.5	45.8	26.6	134
1975/76	241	262	186	689	34.9	38.0	26.9	125
1974/75	246	273	183	702	35.0	38.8	26.1	41
1973/74	220	334	124	678	32.4	49.3	18.3	59
1972/73	91	328	98	517	17.6	63.4	18.9	60
1971/72	186	293	95	574	32.4	51.0	16.5	58
1970/71	115	301	64	480	23.9	62.7	13.3	108
1969/70	125	285	59	469	26.6	60.7	12.6	86
1968/69	135	282	18	435	31.0	64.8	4.1	49
1967/68	167	272	6	445	37.5	61.1	1.3	4

1/ These three oils account for over 95% of Spain's total edible oil consumption.

2/ Calendar year.

3/ Forecast.

Source: USDA/FAS/O&P Data Bases. 1967/68-1971/72 data for sunflower oil is from a discontinuous series.

TABLE 4

EXPORTS OF SOYBEAN OIL BY LEADING EXPORTERS,
MARKETING YEARS 1977/78 THROUGH 1981/82

COUNTRY	1977/78	1978/79	1979/80	1980/81 1/	1981/82 2/	Market Share 5-year Average
	1,000 mt					percent
United States	933	1,059	1,220	680	907	30.0
European Community 3/	806	909	914	947	992	28.5
Brazil	675	557	538	1,067	1,000	23.9
Spain	273	313	369	440	480	11.7
Argentina	69	52	106	83	97	2.5
Others	34	74	126	134	140	3.1
Total	2,790	2,964	3,273	3,351	3,616	

1/ Preliminary.

2/ Forecast based on August 1981 projections.

3/ Greece is not included in EC total prior to 1980/81.

Source: USDA/FAS, Counselor and Attache Reports, Official Statistics, FAS, Washington Estimates, August 1981.

TABLE 5

SPAIN'S SOYBEAN OIL EXPORTS BY LEADING COUNTRY OF DESTINATION, CALENDAR YEARS 1976-1980

COUNTRY OF DESTINATION	1976	1977	1978	1979	1980
	------------- 1,000 metric tons -------------				
Morocco	40	62	96	107	93
Turkey	26	4	16	44	58
Tunisia	--	8	17	59	63
Iran	--	--	70	35	26
Yugoslavia	24	--	--	--	46
India	20	24	13	--	9
France	--	--	18	17	16
Pakistan	--	--	22	9	--
Others	14	35	21	41	58
Total	124	133	273	312	369

Source: USDA, FAS, September 15, 1981.

TABLE 6

U.S. SOYBEAN OIL 1/ EXPORTS BY LEADING COUNTRY OF DESTINATION, CALENDAR YEARS 1976-1980

COUNTRY OF DESTINATION	1976	1977	1978	1979	1980 2/	Five-year Average 1976-1980
	1,000 metric tons					
India	53.1	229.9	268.2	225.2	366.4	228.5
Pakistan	168.3	97.9	95.8	163.5	150.2	135.2
Iran	46.8	49.8	117.8	107.7	0	64.4
Colombia	19.6	38.1	51.2	83.3	79.3	54.3
PRC	0	61.8	44.2	58.8	99.7	52.9
Peru	29.4	58.1	63.3	24.5	32.8	41.7
Bangladesh	24.0	20.8	26.7	53.0	10.0	26.9
Canada	29.4	27.3	28.0	19.9	12.7	23.4
Mexico	2.0	15.3	34.2	.7	50.3	20.5
Others	137.4	174.8	199.9	392.7	295.1	
Total	510.0	773.8	929.3	1,129.3	1,096.1	

1/ Crude and refined oil combined. Includes shipments under P.L. 480 as reported by Census. Beginning in 1978, excludes partially hydrogenated salad oil.

2/ Preliminary.

Source: USDA, FAS, "Foreign Agriculture Circular: Grains," June 1981.

TABLE 7

SELECTED U.S. AGRICULTURAL EXPORTS TO THE EC, CALENDAR YEARS 1977-1979

COMMODITY	1977	1978	1979
	million dollars		
Soybeans	2,085.0	2,286.0	2,561.4
Feed Grains	2,041.3	1,518.7	1,529.4
Wheat & Flour	151.6	368.3	470.9
Animal Feed 1/	879.7	1,047.1	1,344.0
Tobacco, Unmanufactured	402.0	782.9	565.8
Fruits & Vegetables	491.4	485.0	573.0
Meat & Meat Preparations	246.8	289.3	355.3
Hides, Skins & Furs	233.7	225.4	363.6
Agricultural Fats & Oil	212.9	218.0	210.0
Other	683.0	989.4	1,211.6
Total	7,427.4	8,210.1	9,185.0

1/ Includes oilseed cake and meal, meatmeal and fishmeal.

Source: USDA, ESS, "Agricultural Situation: Western Europe, Review of 1980 and Outlook for 1981," June 1981.